COMMERCE BANCSHARES INC /MO/
Form 10-Q
November 08, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010
OR

o **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 (State of Incorporation)	**43-0889454** (IRS Employer Identification No.)
1000 Walnut, **Kansas City, MO** (Address of principal executive offices)	**64106** (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 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 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 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 October 28, 2010, the registrant had outstanding 82,983,244 shares of its $5 par value common stock, registrant s only class of common stock.

Commerce Bancshares, Inc. and Subsidiaries

Form 10-Q

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PART I: FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	September 30 2010	December 31 2009
	(Unaudited)	
	(In thousands)	
ASSETS		
Loans	**$ 9,706,265**	$ 10,145,324
Allowance for loan losses	**(197,538)**	(194,480)
Net loans	**9,508,727**	9,950,844
Loans held for sale	**248,108**	345,003
Investment securities:		
Available for sale ($427,276,000 and $537,079,000 pledged in 2010 and 2009, respectively, to secure structured repurchase agreements)	**7,164,273**	6,340,975
Trading	**20,828**	10,335
Non-marketable	**110,487**	122,078
Total investment securities	**7,295,588**	6,473,388
Short-term federal funds sold and securities purchased under agreements to resell	**4,550**	22,590
Long-term securities purchased under agreements to resell	**350,000**	
Interest earning deposits with banks	**4,047**	24,118
Cash and due from banks	**412,315**	417,126
Land, buildings and equipment, net	**387,792**	402,633
Goodwill	**125,585**	125,585
Other intangible assets, net	**11,285**	14,333
Other assets	**403,762**	344,569
Total assets	**$ 18,751,759**	$ 18,120,189

LIABILITIES AND EQUITY		
Deposits:		
Non-interest bearing demand	**$ 1,752,930**	$ 1,793,816
Savings, interest checking and money market	**9,712,088**	9,202,916
Time open and C.D. s of less than $100,000	**1,607,664**	1,801,332
Time open and C.D. s of $100,000 and over	**1,318,877**	1,412,387
Total deposits	**14,391,559**	14,210,451
Federal funds purchased and securities sold under agreements to repurchase	**1,530,555**	1,103,191
Other borrowings	**337,863**	736,062
Other liabilities	**445,177**	184,580
Total liabilities	**16,705,154**	16,234,284
Commerce Bancshares, Inc. stockholders equity:		
Preferred stock, $1 par value		
Authorized and unissued 2,000,000 shares		
Common stock, $5 par value		
Authorized 100,000,000 shares; issued 83,565,412 shares in 2010 and 83,127,401 shares in 2009	**417,827**	415,637
Capital surplus	**865,246**	854,490
Retained earnings	**669,485**	568,532
Treasury stock of 60,428 shares in 2010 and 22,328 shares in 2009, at cost	**(2,323)**	(838)
Accumulated other comprehensive income	**95,204**	46,407
Total Commerce Bancshares, Inc. stockholders equity	**2,045,439**	1,884,228
Non-controlling interest	**1,166**	1,677
Total equity	**2,046,605**	1,885,905
Total liabilities and equity	**$ 18,751,759**	$ 18,120,189

See accompanying notes to consolidated financial statements.

Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	**For the Three Months Ended September 30** **2010**	2009	**For the Nine Months Ended September 30** **2010**	2009
		(Unaudited)		
INTEREST INCOME				
Interest and fees on loans	**$ 126,273**	$ 138,614	**$ 385,976**	$ 422,446
Interest and fees on loans held for sale	**1,368**	1,445	**5,533**	6,840
Interest on investment securities	**50,295**	61,416	**159,259**	164,403
Interest on short-term federal funds sold and securities purchased under agreements to resell	**12**	52	**40**	202
Interest on long-term securities purchased under agreements to resell	**862**		**862**	
Interest on deposits with banks	**106**	120	**372**	622
Total interest income	**178,916**	201,647	**552,042**	594,513
INTEREST EXPENSE				
Interest on deposits:				
Savings, interest checking and money market	**7,261**	7,695	**22,068**	23,726
Time open and C.D. s of less than $100,000	**5,444**	13,485	**18,318**	42,777
Time open and C.D. s of $100,000 and over	**3,461**	8,431	**10,946**	29,646
Interest on federal funds purchased and securities sold under agreements to repurchase	**584**	816	**2,230**	2,895
Interest on other borrowings	**2,729**	7,681	**13,225**	24,470
Total interest expense	**19,479**	38,108	**66,787**	123,514
Net interest income	**159,437**	163,539	**485,255**	470,999
Provision for loan losses	**21,844**	35,361	**78,353**	119,695
Net interest income after provision for loan losses	**137,593**	128,178	**406,902**	351,304
NON-INTEREST INCOME				
Bank card transaction fees	**37,723**	31,279	**107,872**	88,552
Deposit account charges and other fees	**21,693**	27,750	**71,146**	80,277
Trust fees	**20,170**	19,258	**59,846**	57,486

Bond trading income	**5,133**	4,834	**15,524**	16,381
Consumer brokerage services	**2,390**	3,045	**6,879**	9,566
Loan fees and sales	**5,830**	6,851	**11,141**	13,545
Other	**6,604**	9,118	**22,034**	27,321
Total non-interest income	**99,543**	102,135	**294,442**	293,128
INVESTMENT SECURITIES GAINS (LOSSES), NET				
Impairment (losses) reversals on debt securities	**5,645**	(3,457)	**11,355**	(35,422)
Less noncredit-related losses (reversals) on securities not expected to be sold	**(7,690)**	1,993	**(15,533)**	32,611
Net impairment losses	**(2,045)**	(1,464)	**(4,178)**	(2,811)
Realized gains (losses) on sales and fair value adjustments	**2,061**	519	**1,189**	(3,059)
Investment securities gains (losses), net	**16**	(945)	**(2,989)**	(5,870)
NON-INTEREST EXPENSE				
Salaries and employee benefits	**85,442**	87,267	**259,988**	260,299
Net occupancy	**12,086**	11,752	**35,697**	34,652
Equipment	**5,709**	6,306	**17,548**	18,883
Supplies and communication	**6,724**	8,061	**20,891**	24,994
Data processing and software	**16,833**	15,500	**50,936**	44,854
Marketing	**5,064**	4,846	**14,784**	14,099
Deposit insurance	**4,756**	4,833	**14,445**	21,908
Indemnification obligation		(2,496)	**(1,683)**	(2,496)
Other	**18,505**	18,420	**54,282**	50,193
Total non-interest expense	**155,119**	154,489	**466,888**	467,386
Income before income taxes	**82,033**	74,879	**231,467**	171,176
Less income taxes	**26,012**	23,415	**71,817**	52,264
Net income before non-controlling interest	**56,021**	51,464	**159,650**	118,912
Less non-controlling interest expense (income)	**136**	(185)	**(139)**	(541)
Net income	**$ 55,885**	$ 51,649	**$ 159,789**	$ 119,453
Net income per common share basic	**$ .67**	$ .63	**$ 1.92**	$ 1.47

Net income per common share diluted	**$ .67**	$ .63	**$ 1.91**	$ 1.47

See accompanying notes to consolidated financial statements.

Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Commerce Bancshares, Inc. Shareholders						
(In thousands, except per share data)	**Common Stock**	**Capital Surplus**	**Retained Earnings**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Non-Controlling Interest**	**Total**
				(Unaudited)			
Balance January 1, 2010	**$ 415,637**	**$ 854,490**	**$ 568,532**	**$ (838)**	**$ 46,407**	**$ 1,677**	**$ 1,885,905**
Net income			**159,789**			**(139)**	**159,650**
Change in unrealized gain (loss) related to available for sale securities for which a portion of an other-than-temporary impairment has been recorded in earnings, net of tax					**12,469**		**12,469**
Change in unrealized gain (loss) on all other available for sale securities, net of tax					**35,274**		**35,274**
Amortization of pension loss, net of tax					**1,054**		**1,054**
Total comprehensive income							**208,447**
Distributions to non-controlling interest						**(372)**	**(372)**
Purchase of treasury stock				**(1,047)**			**(1,047)**
Issuance of stock under purchase and equity compensation plans	**1,425**	**5,439**		**(199)**			**6,665**
Net tax benefit related to equity compensation plans		**1,174**					**1,174**
Stock-based compensation		**4,669**					**4,669**
Issuance of nonvested stock awards	**765**	**(526)**		**(239)**			
Cash dividends paid ($.705 per share)			**(58,836)**				**(58,836)**

Balance September 30, 2010	**$ 417,827**	**$ 865,246**	**$ 669,485**	**$ (2,323)**	**$ 95,204**	**$ 1,166**	**$ 2,046,605**
Balance January 1, 2009	$ 379,505	$ 621,458	$ 633,159	$ (761)	$ (56,729)	$ 2,835	$ 1,579,467
Net income			119,453			(541)	118,912
Change in unrealized gain (loss) related to available for sale securities for which a portion of an other-than-temporary impairment has been recorded in earnings, net of tax					7,309		7,309
Change in unrealized gain (loss) on all other available for sale securities, net of tax					95,048		95,048
Amortization of pension loss, net of tax					1,375		1,375
Total comprehensive income							222,644
Distributions to non-controlling interest						(474)	(474)
Purchase of treasury stock				(462)			(462)
Issuance of stock under open market sale program	14,474	83,698					98,172
Issuance of stock under purchase and equity compensation plans	439	1,570		(39)			1,970
Net tax benefit related to equity compensation plans		138					138
Stock-based compensation		4,925					4,925
Issuance of nonvested stock awards	764	(1,201)		437			
Cash dividends paid ($.686 per share)			(55,736)				(55,736)
Balance September 30, 2009	$ 395,182	$ 710,588	$ 696,876	$ (825)	$ 47,003	$ 1,820	$ 1,850,644

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 2010**	2009
	(Unaudited)	
OPERATING ACTIVITIES:		
Net income	**$ 159,789**	$ 119,453
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**78,353**	119,695
Provision for depreciation and amortization	**36,891**	38,334
Net amortization (accretion) of investment security premiums/discounts	**16,835**	(811)
Investment securities losses, net(A)	**2,989**	5,870
Gain on sale of branch		(644)
Net gains on sales of loans held for sale	**(6,656)**	(9,689)
Originations of loans held for sale	**(316,641)**	(465,020)
Proceeds from sales of loans held for sale	**420,391**	504,305
Net increase in trading securities	**(15,901)**	(6,371)
Stock-based compensation	**4,669**	4,925
Decrease in interest receivable	**1,654**	1,318
Decrease in interest payable	**(6,632)**	(11,587)
Increase (decrease) in income taxes payable	**(3,514)**	2,069
Net tax benefit related to equity compensation plans	**(1,174)**	(138)
Other changes, net	**34,815**	33,001
Net cash provided by operating activities	**405,868**	334,710
INVESTING ACTIVITIES:		
Cash paid in branch sale		(3,494)
Proceeds from sales of investment securities(A)	**77,678**	32,185
Proceeds from maturities/pay downs of investment securities(A)	**1,650,002**	1,012,734
Purchases of investment securities(A)	**(2,270,478)**	(3,319,666)
Net decrease in loans	**363,764**	898,708
Long-term securities purchased under agreements to resell	**(350,000)**	
Purchases of land, buildings and equipment	**(13,161)**	(21,017)
Sales of land, buildings and equipment	**394**	135
Net cash used in investing activities	**(541,801)**	(1,400,415)

FINANCING ACTIVITIES:		
Net increase in non-interest bearing demand, savings, interest checking and money market deposits	**403,068**	1,277,145
Net decrease in time open and C.D. s	**(287,178)**	(258,380)
Long-term securities sold under agreements to repurchase	**400,000**	
Repayment of long-term securities sold under agreements to repurchase	**(500,000)**	
Net increase in short-term federal funds purchased and securities sold under agreements to repurchase	**527,364**	103,656
Additional other long-term borrowings		100,000
Repayment of other long-term borrowings	**(398,200)**	(225,840)
Net increase (decrease) in other short-term borrowings	**1**	(800,000)
Purchases of treasury stock	**(1,047)**	(462)
Issuance of stock under open market stock sale program, stock purchase and equity compensation plans	**6,665**	100,142
Net tax benefit related to equity compensation plans	**1,174**	138
Cash dividends paid on common stock	**(58,836)**	(55,736)
Net cash provided by financing activities	**93,011**	240,663
Decrease in cash and cash equivalents	**(42,922)**	(825,042)
Cash and cash equivalents at beginning of year	**463,834**	1,299,356
Cash and cash equivalents at September 30	**$ 420,912**	$ 474,314

(A) Available for sale and non-marketable securities

Income tax net payments	**$ 75,138**	$ 51,096
Interest paid on deposits and borrowings	**$ 73,419**	$ 135,121

See accompanying notes to consolidated financial statements.

Commerce Bancshares, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010 (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). 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 2009 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, 2010 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 2009 Annual Report on Form 10-K. The Company recently purchased securities under agreements to resell which will mature in 2012 and 2013, which have been segregated from other short-term agreements in the accompanying September 30, 2010 consolidated balance sheet. The Company s former policy of including all securities purchased under agreements to resell in cash and cash equivalents was modified to exclude the new long-term agreements from cash and cash equivalents in the accompanying consolidated statements of cash flows.

2. Loans and Allowance for Loan Losses

Major classifications within the Company s held to maturity loan portfolio at September 30, 2010 and December 31, 2009 are as follows.

(In thousands)	**September 30 2010**	December 31 2009
Business	**$ 2,934,062**	$ 2,877,936
Real estate construction and land	**523,749**	665,110
Real estate business	**1,988,646**	2,104,030
Real estate personal	**1,445,535**	1,537,687
Consumer	**1,217,113**	1,333,763
Revolving home equity	**486,687**	489,517
Student	**311,501**	331,698
Consumer credit card	**791,316**	799,503
Overdrafts	**7,656**	6,080
Total loans	**$ 9,706,265**	$ 10,145,324

The Company s holdings of student loans in the table above were acquired in 2008 from a student loan agency in exchange for certain auction rate securities. In October 2010, the agency, as allowed under the original exchange contract, elected to repurchase the loans. This transaction was recorded in the fourth quarter and a gain of $6.9 million was recognized at that time.

At September 30, 2010, loans of $2.9 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 $1.3 billion were pledged at the Federal Reserve Bank as collateral for discount window borrowings.

In addition to its basic portfolio, the Company originates other loans which it intends to sell in secondary markets. Loans classified as held for sale have historically consisted primarily of loans originated to students while attending colleges and universities, which are sold to various student loan agencies. Most of this origination activity ceased on July 1, 2010, as the federal government became the sole originator of federally subsidized student loans on that date. The Company sold approximately $350 million from this student loan portfolio during the first nine months of 2010, most of which were originated under the Department of

Education s program. The remaining loans originated under this program, totaling approximately $178 million, are expected to be sold in the fourth quarter. Other loans included as held for sale consist of certain fixed rate residential mortgage loans which are sold in the secondary market, generally within three months of origination.

The following table presents information about loans held for sale, including impairment losses on student loans resulting from declines in fair value, which are further discussed in Note 13 on Fair Value Measurements. Previously recognized impairment losses amounting to $442 thousand were reversed during the first nine months of 2010, as certain impaired loans were sold.

(In thousands)	**September 30 2010**	December 31 2009
Balance outstanding:		
Student loans, at cost	**$ 237,594**	$ 335,358
Residential mortgage loans, at cost	**10,900**	10,473
Valuation allowance on student loans	**(386)**	(828)
Total loans held for sale, at lower of cost or fair value	**$ 248,108**	$ 345,003

(In thousands)	**For the Nine Months Ended September 30 2010**	2009
Net gains on sales:		
Student loans	**$ 5,347**	$ 7,636
Residential mortgage loans	**1,309**	2,053
Total gains on sales of loans held for sale, net	**$ 6,656**	$ 9,689

The table below shows the Company s investment in impaired loans at September 30, 2010 and December 31, 2009. These loans consist of loans on non-accrual status and other restructured loans whose terms have been modified and classified as troubled debt restructurings under ASC 310-40. The restructured loans have been extended to borrowers who are experiencing financial difficulty and who have been granted a concession. Restructured loans are largely comprised of certain business, construction and business real estate loans totaling $68.0 million and $85.7 million at September 30, 2010 and December 31, 2009, respectively, and classified as substandard, which when renewed at maturity were at interest rates equal to or greater than the previous rates in effect. The new rates, however, were not judged to be market rates for new debt with similar risk, and thus these loans were classified as troubled debt restructurings. 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. However, because of their substandard classification they are also regarded as potential problem loans, as disclosed at both December 31, 2009 and September 30, 2010 in the Risk Elements of Loan Portfolio section of the following discussion. Troubled debt restructurings also include certain credit card loans under various debt management and assistance programs, which totaled $14.3 million at September 30, 2010 and $16.0 million at December 31, 2009.

(In thousands)	**September 30 2010**	December 31 2009
Non-accrual loans	**$ 89,609**	$ 106,613
Restructured loans	**82,313**	101,765
Total impaired loans	**$ 171,922**	$ 208,378

The Company s holdings of foreclosed real estate totaled $12.5 million and $10.1 million at September 30, 2010 and December 31, 2009, respectively. Personal property acquired in repossession, generally autos and marine and recreational vehicles, totaled $10.0 million and $14.5 million at September 30, 2010 and December 31, 2009, respectively. These assets are carried at the lower of the amount recorded at acquisition date or the current fair value less estimated costs to sell.

The following is a summary of the allowance for loan losses.

(In thousands)	**For the Three Months Ended September 30** **2010**	2009	**For the Nine Months Ended September 30** **2010**	2009
Balance, beginning of period	**$ 197,538**	$ 186,001	**$ 194,480**	$ 172,619
Additions:				
Provision for loan losses	**21,844**	35,361	**78,353**	119,695
Total additions	**21,844**	35,361	**78,353**	119,695
Deductions:				
Loan losses	**26,079**	34,853	**88,417**	112,762
Less recoveries on loans	**4,235**	3,957	**13,122**	10,914
Net loan losses	**21,844**	30,896	**75,295**	101,848
Balance, September 30	**$ 197,538**	$ 190,466	**$ 197,538**	$ 190,466

3. Investment Securities

Investment securities, at fair value, consisted of the following at September 30, 2010 and December 31, 2009.

(In thousands)	**September 30 2010**	December 31 2009
Available for sale:		
U.S. government and federal agency obligations	**$ 459,245**	$ 447,038
Government-sponsored enterprise obligations	**185,222**	165,814
State and municipal obligations	**1,105,686**	939,338
Agency mortgage-backed securities	**2,436,297**	2,262,003
Non-agency mortgage-backed securities	**558,615**	609,016
Other asset-backed securities	**2,194,090**	1,701,569

Other debt securities	**180,459**	176,331
Equity securities	**44,659**	39,866
Total available for sale	**7,164,273**	6,340,975
Trading	**20,828**	10,335
Non-marketable	**110,487**	122,078
Total investment securities	**$ 7,295,588**	$ 6,473,388

Most of the Company s investment securities are classified as available for sale, and this portfolio is discussed in more detail below. Securities which are classified as non-marketable include Federal Home Loan Bank (FHLB) stock and Federal Reserve Bank (FRB) stock held for debt and regulatory purposes, which totaled $55.2 million and $72.6 million at September 30, 2010 and December 31, 2009, respectively. Investment in FRB stock is based on the capital structure of the investing bank, and investment in FHLB stock is tied to the level of borrowings from the FHLB. Non-marketable securities also include private equity investments, which amounted to $55.2 million and $49.5 million at September 30, 2010 and December 31, 2009, respectively.

A summary of the available for sale investment securities by maturity groupings as of September 30, 2010 is shown below. The investment portfolio includes agency mortgage-backed securities, which are guaranteed by government-sponsored agencies such as the FHLMC, FNMA and GNMA, and non-agency mortgage-backed securities, which have no guarantee but are collateralized by residential mortgages. Also included are certain other asset-backed securities, which are primarily collateralized by credit cards, automobiles, and commercial loans. These securities differ from traditional debt securities primarily in that they may have uncertain maturity dates and are priced based on estimated prepayment rates on the underlying collateral. The Company does not have exposure to subprime originated mortgage-backed or collateralized debt obligation instruments.

(Dollars in thousands)	Amortized Cost	Fair Value
U.S. government and federal agency obligations:		
Within 1 year	$ 171,590	$ 171,457
After 1 but within 5 years	103,710	111,083
After 5 but within 10 years	161,564	176,705
Total U.S. government and federal agency obligations	436,864	459,245
Government-sponsored enterprise obligations:		
Within 1 year	68,778	69,558
After 1 but within 5 years	113,169	115,664
Total government-sponsored enterprise obligations	181,947	185,222
State and municipal obligations:		
Within 1 year	128,501	130,414
After 1 but within 5 years	430,483	445,998
After 5 but within 10 years	266,256	272,230
After 10 years	261,348	257,044
Total state and municipal obligations	1,086,588	1,105,686
Mortgage and asset-backed securities:		
Agency mortgage-backed securities	2,357,963	2,436,297
Non-agency mortgage-backed securities	561,971	558,615
Other asset-backed securities	2,178,115	2,194,090

Total mortgage and asset-backed securities	5,098,049	5,189,002
Other debt securities:		
Within 1 year	5,000	5,034
After 1 but within 5 years	162,108	175,425
Total other debt securities	167,108	180,459
Equity securities	13,071	44,659
Total available for sale investment securities	$ 6,983,627	$ 7,164,273

Included in U.S. government securities are $447.1 million, at fair value, of U.S. Treasury inflation-protected securities (TIPS). Interest paid on these securities increases with inflation and decreases with deflation, as measured by the Consumer Price Index. Included in state and municipal obligations are $154.1 million, at fair value, of auction rate securities (ARS), which were purchased from bank customers in the third quarter of 2008. These bonds are historically traded in a competitive bidding process at weekly/monthly auctions. These auctions have not functioned since early 2008, and this market has not recovered. Interest is currently being paid at the maximum failed auction rates. Included in equity securities is common stock held by the holding company, Commerce Bancshares, Inc. (the Parent), with a fair value of $35.8 million at September 30, 2010.

Included in agency mortgage-backed securities are $550 million, at par value, in securities which were purchased during the third quarter in the TBA (to be announced) market on a forward delivery basis. At September 30, 2010, undelivered securities totaled $180 million. The transaction is discussed further in the Net Interest Income section of the following discussion.

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

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2010				
U.S. government and federal agency obligations	**$ 436,864**	**$ 22,534**	**$ (153)**	**$ 459,245**
Government-sponsored enterprise obligations	**181,947**	**3,275**		**185,222**
State and municipal obligations	**1,086,588**	**29,585**	**(10,487)**	**1,105,686**
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	**2,357,963**	**78,502**	**(168)**	**2,436,297**
Non-agency mortgage-backed securities	**561,971**	**13,766**	**(17,122)**	**558,615**
Other asset-backed securities	**2,178,115**	**16,096**	**(121)**	**2,194,090**
Total mortgage and asset-backed securities	**5,098,049**	**108,364**	**(17,411)**	**5,189,002**
Other debt securities	**167,108**	**13,351**		**180,459**
Equity securities	**13,071**	**31,588**		**44,659**
Total	**$ 6,983,627**	**$ 208,697**	**$ (28,051)**	**$ 7,164,273**
December 31, 2009				
U.S. government and federal agency obligations	$ 436,607	$ 10,764	$ (333)	$ 447,038
Government-sponsored enterprise obligations	162,191	3,743	(120)	165,814
State and municipal obligations	917,267	25,099	(3,028)	939,338
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	2,205,177	58,740	(1,914)	2,262,003
Non-agency mortgage-backed securities	654,711	4,505	(50,200)	609,016
Other asset-backed securities	1,685,691	17,143	(1,265)	1,701,569
Total mortgage and asset-backed securities	4,545,579	80,388	(53,379)	4,572,588
Other debt securities	164,402	11,929		176,331
Equity securities	11,285	28,581		39,866
Total	$ 6,237,331	$ 160,504	$ (56,860)	$ 6,340,975

The Company s impairment policy requires a review of all securities for which fair value is less than amortized cost. Special emphasis and analysis is placed on securities whose credit rating has fallen below A3/A-, whose fair values have fallen more than 20% below purchase price for an extended period of time, or have been identified based on management s judgment. These securities are placed on a watch list, and for all such securities, detailed cash flow models are prepared which use inputs specific to each security. Inputs to these models include factors such as cash flow received, contractual payments required, and various other information related to the underlying collateral (including current delinquencies), collateral loss severity rates (including loan to values), expected delinquency rates, credit support from other tranches, and prepayment speeds. Stress tests are performed at varying levels of delinquency rates, prepayment speeds and loss severities in order to gauge probable ranges of credit loss. At September 30, 2010, the fair value of securities on this watch list was $255.5 million.

As of September 30, 2010, the Company had recorded other-than-temporary impairment (OTTI) on certain non-agency mortgage-backed securities having an aggregate fair value of $174.6 million, which included an unrealized loss of $21.6 million. The credit-related portion of the impairment totaled $6.7 million and was recorded in earnings. The noncredit-related portion of the impairment totaled $14.9 million on a pre-tax basis, and has been recognized in other comprehensive income. The Company does not intend to sell these securities and believes it is not more likely than not that it will be required to sell the securities before the recovery of their amortized cost bases.

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

Significant Inputs	Range
Prepayment CPR	1.8% - 25.0%
Projected cumulative default	10.7% - 50.8%
Credit support	.1% - 11.2%
Loss severity	32.8% - 57.1%

The following table shows changes in the credit losses recorded in the nine months ended September 30, 2010 and 2009, for which a portion of an OTTI was recognized in other comprehensive income.

	For the Nine Months Ended September 30	
(In thousands)	**2010**	2009
Balance, January 1	**$ 2,473**	$
Credit losses on debt securities for which impairment was not previously recognized	**281**	2,811
Credit losses on debt securities for which impairment was previously recognized	**3,897**	
Balance, September 30	**$ 6,651**	$ 2,811

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

	Less than 12 months		12 months or longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

September 30, 2010												
U.S. government and federal agency obligations	**$**	**166,776**	**$**	**153**	**$**		**$**		**$**	**166,776**	**$**	**153**
State and municipal obligations		**93,572**		**1,307**		**84,427**		**9,180**		**177,999**		**10,487**
Mortgage and asset-backed securities:												
Agency mortgage-backed securities		**118,856**		**128**		**2,095**		**40**		**120,951**		**168**
Non-agency mortgage-backed securities		**76,362**		**6,445**		**126,725**		**10,677**		**203,087**		**17,122**
Other asset-backed securities		**38,424**		**56**		**24,866**		**65**		**63,290**		**121**
Total mortgage and asset-backed securities		**233,642**		**6,629**		**153,686**		**10,782**		**387,328**		**17,411**
Total	**$**	**493,990**	**$**	**8,089**	**$**	**238,113**	**$**	**19,962**	**$**	**732,103**	**$**	**28,051**
December 31, 2009												
U.S. government and federal agency obligations	$	168,172	$	333	$		$		$	168,172	$	333
Government-sponsored enterprise obligations		24,842		120						24,842		120
State and municipal obligations		16,471		121		104,215		2,907		120,686		3,028
Mortgage and asset-backed securities:												
Agency mortgage-backed securities		214,571		1,911		150		3		214,721		1,914
Non-agency mortgage-backed securities		209,961		18,512		215,158		31,688		425,119		50,200
Other asset-backed securities		290,183		218		34,456		1,047		324,639		1,265
Total mortgage and asset-backed securities		714,715		20,641		249,764		32,738		964,479		53,379
Total	$	924,200	$	21,215	$	353,979	$	35,645	$	1,278,179	$	56,860

The total available for sale portfolio consisted of approximately 1,300 individual securities at September 30, 2010, with 102 securities in a loss position. Securities with temporary impairment totaled 84, of which 15 securities, or 2% of the portfolio value, had been in a loss position for 12 months or longer.

The Company s holdings of state and municipal obligations included gross unrealized losses of $10.5 million at September 30, 2010. Of these losses, $10.1 million related to ARS, which are discussed above, and $393 thousand related to other state and municipal obligations. This portfolio, exclusive of ARS, totaled $951.6 million at fair value, or 13.3% of total available for sale securities. The average credit quality of the portfolio, excluding ARS, is Aa2 as rated by Moody s. The portfolio is diversified in order to reduce risk, and information about the largest holdings, by state and economic sector, is shown in the table below.

	% of Portfolio	Average Life (in years)	Average Rating (Moody s)
At September 30, 2010			
Texas	11.7%	4.6	Aa1
Illinois	6.6	3.6	Aa2
Washington	6.2	1.7	Aa3
Missouri	5.3	1.7	Aa1
Arizona	4.5	4.0	Aa3
General obligation	26.2%	3.9	Aa2
Housing	19.4	5.1	Aa1
Transportation	17.6	3.4	Aa3
Lease	8.8	3.0	Aa2
Refunded	7.3	2.3	Aaa

The remaining unrealized losses on the Company s investments are largely contained in the portfolio of non-agency mortgage-backed securities. These securities are not guaranteed by an outside agency and are dependent on payments received from the underlying mortgage collateral. While nearly all of these securities, at purchase date, were comprised of senior tranches and were highly rated by various rating agencies, the adverse housing market, liquidity pressures and overall economic climate has resulted in low fair values for these securities. Also, as mentioned above, the Company maintains a watch list comprised mostly of these securities, and has recorded OTTI losses on certain of these securities. The Company continues to closely monitor the performance of these securities. Additional OTTI on these and other securities may arise in future periods due to further deterioration in expected cash flows, loss severities and delinquency levels of the securities underlying collateral, which would negatively affect the Company s financial results.

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

	For the Nine Months Ended

	September 30	
(In thousands)	**2010**	2009
Proceeds from sales of available for sale securities	**$ 77,493**	$ 26,877
Proceeds from sales of non-marketable securities	**185**	5,308
Total proceeds	**$ 77,678**	$ 32,185
Available for sale:		
Gains realized on sales	**$ 2,684**	$ 82
Losses realized on sales	**(151)**	(41)
Other-than-temporary impairment recognized on debt securities	**(4,178)**	(2,811)
Non-marketable:		
Gains realized on sales	**45**	1,087
Losses realized on sales		(170)
Fair value adjustments, net	**(1,389)**	(4,017)
Investment securities losses, net	**$ (2,989)**	$ (5,870)

At September 30, 2010, securities carried at $3.3 billion were pledged to secure public fund deposits, securities sold under agreements to repurchase, trust funds, and borrowing capacity at the Federal Reserve Bank. Securities pledged under agreements pursuant to which the collateral may be sold or re-pledged by the secured parties approximated $427.3 million, while the remaining securities were pledged under agreements pursuant to which the secured parties may not sell or re-pledge the collateral.

4. Goodwill and Other Intangible Assets

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

	September 30, 2010				December 31, 2009			
(In thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Valuation Allowance**	**Net Amount**	Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount
Amortizable intangible assets:								
Core deposit premium	**$ 25,720**	**$ (15,397)**	**$**	**$ 10,323**	$ 25,720	$ (12,966)	$	$ 12,754
Mortgage servicing rights	**2,964**	**(1,455)**	**(547)**	**962**	2,898	(1,206)	(113)	1,579
Total	**$ 28,684**	**$ (16,852)**	**$ (547)**	**$ 11,285**	$ 28,618	$ (14,172)	$ (113)	$ 14,333

Aggregate amortization expense on intangible assets was $864 thousand and $1.0 million, respectively, for the three month periods ended September 30, 2010 and 2009, and $2.7 million and $3.1 million for the nine month periods ended September 30, 2010 and 2009. The following table shows the estimated annual amortization expense for the next five fiscal years. This expense is based on existing asset balances and the interest rate environment as of September 30, 2010. The Company s actual amortization expense in any given period may be different from the estimated amounts depending upon the acquisition of intangible assets, changes in mortgage interest rates, prepayment rates and other market conditions.

(In thousands)	
2010	$ 3,403
2011	2,838
2012	2,277
2013	1,738
2014	1,266

Changes in the carrying amount of goodwill and net other intangible assets for the nine month period ended September 30, 2010 is as follows.

(In thousands)	Goodwill	Core Deposit Premium	Mortgage Servicing Rights
Balance at January 1, 2010	$ 125,585	$ 12,754	$ 1,579
Originations			66
Amortization		(2,431)	(249)
Impairment			(434)
Balance at September 30, 2010	$ 125,585	$ 10,323	$ 962

Goodwill allocated to the Company s operating segments at September 30, 2010 and December 31, 2009 is shown below.

(In thousands)	
Consumer segment	$ 67,765
Commercial segment	57,074
Wealth segment	746
Total goodwill	$ 125,585

5. Guarantees

The Company, as a provider of financial services, routinely issues financial guarantees in the form of financial and performance standby letters of credit. Standby letters of credit are contingent commitments issued by the Company generally to guarantee the payment or performance obligation of a customer to a third party. While these represent a potential outlay by the Company, a significant amount of the commitments may expire without being drawn upon. The Company has recourse against the customer for any amount it is required to pay to a third party under a standby letter of credit. The letters of credit are subject to the same credit policies, underwriting standards and approval process as loans made by the Company. Most of the standby letters of credit are secured and in the event of nonperformance by the customers, the Company has rights to the underlying collateral, which could include commercial real estate, physical plant and property, inventory, receivables, cash and marketable securities.

Upon issuance of standby letters of credit, the Company recognizes a liability for the fair value of the obligation undertaken, which is estimated to be equivalent to the amount of fees received from the customer over the life of the agreement. At September 30, 2010 that net liability was $3.1 million, which will be accreted into income over the remaining life of the respective commitments. The contractual amount of these letters of credit, which represents the maximum potential future payments guaranteed by the Company, was $346.4 million at September 30, 2010.

The Company periodically enters into risk participation agreements (RPAs) as a guarantor to other financial institutions, in order to mitigate those institutions credit risk associated with interest rate swaps with third parties. The RPA stipulates that, in the event of default by the third party on the interest rate swap, the Company will reimburse a portion of the loss borne by the financial institution. These interest rate swaps are normally collateralized (generally with real property, inventories and equipment) by the third party, which limits the credit risk associated with the Company s RPAs. The third parties usually have other borrowing relationships with the Company. The Company monitors overall borrower collateral, and at September 30, 2010, believes sufficient collateral is available to cover potential swap losses. The Company receives a fee from the institution at the inception of the contract, which is recorded as a liability representing the fair value of the RPA. Any future changes in fair value, including those due to a change in the third party s creditworthiness, are recorded in current earnings. The terms of the RPAs, which correspond to the terms of the underlying swaps, range from 2 to 8 years. At September 30, 2010, the liability recorded for guarantor RPAs was $303 thousand, and the notional amount of the underlying swaps was $41.7 million. The maximum potential future payment guaranteed by the Company cannot be readily estimated, but is dependent upon the fair value of the interest rate swaps at the time of default. If an event of default on all contracts had occurred at September 30, 2010, the Company would have been required to make payments of approximately $4.5 million.

At September 30, 2010, the Company had recorded a liability of $7.2 million representing its obligation to share certain estimated litigation costs of Visa, Inc. (Visa). An escrow account has been established by Visa, and is being used to fund actual litigation settlements as they occur. The escrow account was funded initially with proceeds from an initial public offering, and subsequently with contributions by Visa. The Company s indemnification obligation is periodically adjusted to reflect changes in estimates of litigation costs, and is reduced as funding occurs in the escrow account. Additional funding occurred in October 2010, when Visa contributed $800 million to the escrow account. As a result, the Company reduced its obligation by

$2.7 million at that time, bringing the liability balance to $4.4 million. The Company currently anticipates that its proportional share of eventual escrow funding will more than offset its liability related to the Visa litigation.

6. Pension

The Company s pension cost is shown in the table below:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
(In thousands)	**2010**	2009	**2010**	2009
Service cost benefits earned during the period	**$ 184**	$ 12	**$ 550**	$ 548
Interest cost on projected benefit obligation	**1,420**	1,378	**4,154**	4,104
Expected return on plan assets	**(1,640)**	(1,395)	**(4,920)**	(4,592)
Amortization of unrecognized net loss	**566**	832	**1,700**	2,182
Net periodic pension cost	**$ 530**	$ 827	**$ 1,484**	$ 2,242

Substantially all benefits under the Company s defined benefit pension plan were frozen effective January 1, 2005. During the first nine months of 2010, the Company made no funding contributions to its defined benefit pension plan, and made minimal funding contributions to a supplemental executive retirement plan (the CERP), which carries no segregated assets. The Company has no plans to make any further contributions, other than those related to the CERP, during the remainder of 2010.

7. Common Stock

Presented below is a summary of the components used to calculate basic and diluted income per share. The Company applies the two-class method of computing income per share, as unvested share-based awards that contain nonforfeitable rights to dividends are considered securities which participate in undistributed earnings with common stock. The two-class method requires the calculation of separate income per share amounts for the unvested share-based awards and for common stock. Income per share attributable to common stock is shown in the table below. Unvested share-based awards are further discussed in Note 12.

(In thousands, except per share data)	**For the Three Months Ended September 30** **2010**	2009	**For the Nine Months Ended September 30** **2010**	2009
Basic income per common share:				
Net income attributable to Commerce Bancshares, Inc.	**$ 55,885**	$ 51,649	**$ 159,789**	$ 119,453
Less income allocated to unvested restricted stockholders	**306**	224	**871**	526
Net income available to common stockholders	**$ 55,579**	$ 51,425	**$ 158,918**	$ 118,927
Distributed income	**$ 19,514**	$ 18,880	**$ 58,506**	$ 55,483
Undistributed income	**$ 36,065**	$ 32,545	**$ 100,412**	$ 63,444
Weighted average common shares outstanding	**83,040**	82,169	**82,968**	80,646
Distributed income per share	**$ .24**	$ .23	**$ .71**	$ .69
Undistributed income per share	**.43**	.40	**1.21**	.78
Basic income per common share	**$ .67**	$ .63	**$ 1.92**	$ 1.47
Diluted income per common share:				
Net income attributable to Commerce Bancshares, Inc.	**$ 55,885**	$ 51,649	**$ 159,789**	$ 119,453
Less income allocated to unvested restricted stockholders	**305**	224	**868**	525
Net income available to common stockholders	**$ 55,580**	$ 51,425	**$ 158,921**	$ 118,928
Distributed income	**$ 19,514**	$ 18,880	**$ 58,506**	$ 55,483

Undistributed income	**$ 36,066**	$ 32,545	**$ 100,415**	$ 63,445
Weighted average common shares outstanding	**83,040**	82,169	**82,968**	80,646
Net effect of the assumed exercise of stock-based awards based on the treasury stock method using the average market price for the respective periods	**350**	322	**399**	305
Weighted average diluted common shares outstanding	**83,390**	82,491	**83,367**	80,951
Distributed income per share	**$ .23**	$ .23	**$ .70**	$ .69
Undistributed income per share	**.44**	.40	**1.21**	.78
Diluted income per common share	**$ .67**	$ .63	**$ 1.91**	$ 1.47

8. Other Comprehensive Income

Activity in other comprehensive income for the three and nine months ended September 30, 2010 and 2009 is shown in the table below. The first component of other comprehensive income is the unrealized holding gains and losses on available for sale securities. These gains and losses have been separated into two groups in the table below, as required by current accounting guidance for other-than-temporary impairment (OTTI) on debt securities. Under this guidance, credit-related losses on debt securities with OTTI are recorded in current earnings, while the noncredit-related portion of the overall gain or loss in fair value is recorded in other comprehensive income (loss). Changes in the noncredit-related gain or loss in fair value of these securities, after OTTI was initially recognized, are shown separately in the table below. The remaining unrealized holding gains and losses shown in the table apply to available for sale investment securities for which OTTI has not been recorded (and include holding gains and losses on certain securities prior to the recognition of OTTI).

In the calculation of other comprehensive income, certain reclassification adjustments are made to avoid double counting gains and losses that are included as part of net income for a period that also had been included as part of other comprehensive income in that period or earlier periods. These reclassification amounts are shown separately in the table below.

The second component of other comprehensive income is pension gains and losses that arise during the period but are not recognized as components of net periodic benefit cost, and corresponding adjustments when these gains and losses are subsequently amortized to net periodic benefit cost.

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
(In thousands)	**2010**	2009	**2010**	2009
Available for sale debt securities for which a portion of OTTI has been recorded in earnings:				
Unrealized holding gains subsequent to initial OTTI recognition	**$ 8,145**	$ 9,407	**$ 20,112**	$ 11,788
Income tax expense	**(3,096)**	(3,574)	**(7,643)**	(4,479)
Net unrealized gains	**5,049**	5,833	**12,469**	7,309
Other available for sale investment securities:				
Unrealized holding gains	**23,353**	78,321	**59,426**	153,345
Reclassification adjustment for (gains) losses included in net income	**(764)**	23	**(2,534)**	(41)
Net unrealized gains on securities	**22,589**	78,344	**56,892**	153,304
Income tax expense	**(8,582)**	(29,771)	**(21,618)**	(58,256)
Net unrealized gains	**14,007**	48,573	**35,274**	95,048
Prepaid pension cost:				
Amortization of accumulated pension loss	**566**	832	**1,700**	2,182
Income tax expense	**(215)**	(307)	**(646)**	(807)

Pension loss amortization	**351**	525	**1,054**	1,375
Other comprehensive income	**$ 19,407**	$ 54,931	**$ 48,797**	$ 103,732

At September 30, 2010, accumulated other comprehensive income was $95.2 million, net of tax. It was comprised of $9.2 million in unrealized holding losses on available for sale debt securities for which a portion of OTTI has been recorded in earnings, $121.2 million in unrealized holding gains on other available for sale securities, and $16.8 million in accumulated pension loss.

9. Segments

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

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

(In thousands)	Consumer	Commercial	Wealth	Segment Totals	Other/ Elimination	Consolidated Totals
Three Months Ended September 30, 2010:						
Net interest income	**$ 76,963**	**$ 64,338**	**$ 8,812**	**$ 150,113**	**$ 9,324**	**$ 159,437**
Provision for loan losses	**(17,552)**	**(3,450)**	**(817)**	**(21,819)**	**(25)**	**(21,844)**
Non-interest income	**38,303**	**32,411**	**28,960**	**99,674**	**(131)**	**99,543**
Investment securities gains, net					**16**	**16**
Non-interest expense	**(71,744)**	**(51,555)**	**(25,432)**	**(148,731)**	**(6,388)**	**(155,119)**
Income before income taxes	**$ 25,970**	**$ 41,744**	**$ 11,523**	**$ 79,237**	**$ 2,796**	**$ 82,033**
Three Months Ended September 30, 2009:						
Net interest income	$ 83,831	$ 62,115	$ 10,407	$ 156,353	$ 7,186	$ 163,539
Provision for loan losses	(19,835)	(11,086)	76	(30,845)	(4,516)	(35,361)
Non-interest income	42,738	30,333	27,920	100,991	1,144	102,135
Investment securities losses, net					(945)	(945)
Non-interest expense	(74,794)	(47,174)	(26,226)	(148,194)	(6,295)	(154,489)
Income before income taxes	$ 31,940	$ 34,188	$ 12,177	$ 78,305	$ (3,426)	$ 74,879
Nine Months Ended September 30, 2010:						

Net interest income	**$ 238,396**	**$ 190,400**	**$ 29,901**	**$ 458,697**	**$ 26,558**	**$ 485,255**
Provision for loan losses	**(54,543)**	**(19,571)**	**(1,038)**	**(75,152)**	**(3,201)**	**(78,353)**
Non-interest income	**112,332**	**96,065**	**85,653**	**294,050**	**392**	**294,442**
Investment securities losses, net					**(2,989)**	**(2,989)**
Non-interest expense	**(218,617)**	**(152,860)**	**(79,884)**	**(451,361)**	**(15,527)**	**(466,888)**
Income before income taxes	**$ 77,568**	**$ 114,034**	**$ 34,632**	**$ 226,234**	**$ 5,233**	**$ 231,467**
Nine Months Ended September 30, 2009:						
Net interest income	$ 250,770	$ 175,888	$ 30,494	$ 457,152	$ 13,847	$ 470,999
Provision for loan losses	(62,255)	(39,348)	(199)	(101,802)	(17,893)	(119,695)
Non-interest income	118,905	84,047	86,812	289,764	3,364	293,128
Investment securities losses, net					(5,870)	(5,870)
Non-interest expense	(227,812)	(143,718)	(80,107)	(451,637)	(15,749)	(467,386)
Income before income taxes	$ 79,608	$ 76,869	$ 37,000	$ 193,477	$ (22,301)	$ 171,176

The information presented above was derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. This information is based on internal management accounting policies, which have been developed to reflect the underlying economics of the businesses. The policies address the methodologies applied in connection with funds transfer pricing and assignment of overhead costs among segments. Funds transfer pricing was used in the determination of net interest income by assigning a standard cost (credit) for funds used (provided) by assets and liabilities based on their maturity, prepayment and/or repricing characteristics. In the second quarter of 2010, due to the prospect of continual low historical rates, the Company determined that the internal interest rate ascribed to business units for providing non-contractual deposit funds should be lowered to reflect present economic conditions. The resulting change to segment net interest income lowered total segment contribution and redistributed income among segments. The information for prior periods in the table above has been revised to incorporate these changes in order to provide comparable data.

The segment activity, as shown above, includes both direct and allocated items. Amounts in the Other/Elimination column include activity not related to the segments, such as that relating to administrative functions, the investment securities portfolio, and the effect of certain expense allocations to the segments. The provision for loan losses in this category contains the difference between loan charge-offs and recoveries assigned directly to the segments and the recorded provision for loan loss expense. Included in this category s net interest income are earnings of the investment portfolio, which are not allocated to a segment.

The performance measurement of the operating segments is based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution. The information is also not necessarily indicative of the segments financial condition and results of operations if they were independent entities.

10. Derivative Instruments

The notional amounts of the Company s derivative instruments are shown in the table below. These contractual amounts, along with other terms of the derivative, are used to determine amounts to be exchanged between counterparties, and are not a measure of loss exposure. The largest group of notional amounts relate to interest rate swaps, which are discussed in more detail below. Through its International Department, the Company enters into foreign exchange contracts consisting mainly of contracts to purchase or deliver foreign currencies for customers at specific future dates. Also, mortgage loan commitments and forward sales contracts result from the Company s mortgage banking operation, in which fixed rate personal real estate loans are originated and sold to other institutions. The Company also contracts with other financial institutions, as a guarantor or beneficiary, to share credit risk associated with certain interest rate swaps. The Company s risks and responsibilities as guarantor are further discussed in Note 5 on Guarantees.

(In thousands)	**September 30 2010**	December 31 2009
Interest rate swaps	**$ 522,966**	$ 503,530
Interest rate caps	**32,236**	16,236
Credit risk participation agreements	**52,390**	53,246
Foreign exchange contracts:		
Forward contracts	**22,127**	17,475
Option contracts	**2,920**	
Mortgage loan commitments	**23,164**	9,767
Mortgage loan forward sale contracts	**35,683**	19,986

Total notional amount	**$**	**691,486**	$	620,240

The Company s interest rate risk management strategy includes the ability to modify the repricing characteristics of certain assets and liabilities so that changes in interest rates do not adversely affect the net interest margin and cash flows. Interest rate swaps are used on a limited basis as part of this strategy. At September 30, 2010, the Company had entered into three interest rate swaps with a notional amount of $16.0 million, which are designated as fair value hedges of certain fixed rate loans. Gains and losses on these derivative instruments, as well as the offsetting loss or gain on the hedged loans attributable to the hedged risk, are recognized in current earnings. These gains and losses are reported in interest and fees on loans in the accompanying statements of income. The table below shows gains and losses related to fair value hedges.

(In thousands)	**For the Three Months Ended September 30 2010**	2009	**For the Nine Months Ended September 30 2010**	2009
Gain (loss) on interest rate swaps	**$ (208)**	$ (191)	**$ (598)**	$ 442
Gain (loss) on loans	**205**	182	**577**	(443)
Amount of hedge ineffectiveness	**$ (3)**	$ (9)	**$ (21)**	$ (1)

The Company s other derivative instruments are accounted for as free-standing derivatives, and changes in their fair value are recorded in current earnings. These instruments include interest rate swap contracts sold to customers who wish to modify their interest rate sensitivity. These swaps are offset by matching contracts purchased by the Company from other financial institutions. Because of the matching terms of the offsetting contracts, in addition to collateral provisions which mitigate the impact of non-performance risk, changes in fair value subsequent to initial recognition have a minimal effect on earnings. The notional amount of these types of swaps at September 30, 2010 was $506.9 million. The Company is party to master netting arrangements with its institutional counterparties; however, the effect of offsetting assets and liabilities under these arrangements is not significant. Collateral exchanges typically involve marketable securities.

The Company s interest rate swap arrangements with other financial institutions contain contingent features relating to debt ratings or capitalization levels. Under these provisions, if the Company s debt rating falls below investment grade or if the Company ceases to be well-capitalized under risk-based capital guidelines, certain counterparties can require immediate and ongoing collateralization on interest rate swaps in net liability positions, or can require instant settlement of the contracts. The aggregate fair value of interest rate swap contracts with credit risk-related contingent features that were in a liability position on September 30, 2010 was $23.7 million, for which the Company had posted collateral of $22.8 million. Most of these features require contract settlement, which if triggered on September 30, 2010 would have required a cash disbursement of $900 thousand, in addition to collateral posted.

The banking customer counterparties are engaged in a variety of businesses, including real estate, building materials, communications, consumer products, and manufacturing. The manufacturing group is the largest, with a combined notional amount of 31.5% of the total customer swap portfolio. If this group of manufacturing counterparties failed to perform, and if the underlying collateral proved to be of no value, the Company would incur a loss of $5.8 million, based on amounts at September 30, 2010.

The fair values of the Company s derivative instruments are shown in the table below. Information about the valuation methods used to determine fair value is provided in Note 13 on Fair Value Measurements.

	Asset Derivatives			Liability Derivatives		
	Balance Sheet	**Sept. 30 2010**	Dec. 31 2009	Balance Sheet	**Sept. 30 2010**	Dec. 31 2009
(In thousands)	Location	Fair Value		Location	Fair Value	
Derivatives designated as hedging instruments:						
Interest rate swaps	Other assets	**$**	$ 64	Other liabilities	**$ (1,452)**	$ (918)
Total derivatives designated as hedging instruments		**$**	$ 64		**$ (1,452)**	$ (918)
Derivatives not designated as hedging instruments:						
Interest rate swaps	Other assets	**$ 24,237**	$ 16,898	Other liabilities	**$ (24,340)**	$ (16,898)
Interest rate caps	Other assets	**48**	239	Other liabilities	**(48)**	(239)
Credit risk participation agreements	Other assets	**78**	140	Other liabilities	**(303)**	(239)
Foreign exchange contracts:						
Forward contracts	Other assets	**808**	415	Other liabilities	**(567)**	(295)
Option contracts	Other assets	**6**		Other liabilities	**(6)**	
Mortgage loan commitments	Other assets	**312**	44	Other liabilities	**(1)**	(16)
Mortgage loan forward sale contracts	Other assets	**39**	184	Other liabilities	**(69)**	(5)
Total derivatives not designated as hedging instruments		**$ 25,528**	$ 17,920		**$ (25,334)**	$ (17,692)
Total derivatives		**$ 25,528**	$ 17,984		**$ (26,786)**	$ (18,610)

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

(In thousands)	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative			
		For the Three Months Ended September 30		**For the Nine Months Ended September 30**	
		2010	2009	**2010**	2009
Derivatives in fair value hedging relationships:					
Interest rate swaps	Interest and fees on loans	**$ (208)**	$ (191)	**$ (598)**	$ 442
Total		**$ (208)**	$ (191)	**$ (598)**	$ 442
Derivatives not designated as hedging instruments:					
Interest rate swaps	Other non-interest income	**$ 137**	$ 226	**$ 596**	$ 350
Interest rate caps	Other non-interest income		1	**32**	6
Credit risk participation agreements	Other non-interest income	**(7)**	4	**6**	13
Foreign exchange contracts:					
Forward contracts	Other non-interest income	**(293)**	(127)	**121**	(139)
Option contracts	Other non-interest income				
Mortgage loan commitments	Loan fees and sales	**43**	84	**283**	7
Mortgage loan forward sale contracts	Loan fees and sales	**151**	(412)	**(210)**	(56)
Total		**$ 31**	$ (224)	**$ 828**	$ 181

11. Income Taxes

For the third quarter of 2010, income tax expense amounted to $26.0 million compared to $23.4 million in the third quarter of 2009. The effective income tax rate for the Company, including the effect of non-controlling interest, was 31.8% in the current quarter compared to 31.2% in the same quarter last year. For the nine months ended September 30, 2010 and 2009, income tax expense amounted to $71.8 million and $52.3 million, resulting in effective income tax rates of 31.0% and 30.4%, respectively. Effective tax rates were higher in 2010 compared to 2009 mainly due to changes in the mix of taxable and non-taxable income on higher pre-tax income.

12. Stock-Based Compensation

Stock-based compensation expense that has been charged against income was $1.3 million and $1.7 million in the three months ended September 30, 2010 and 2009, respectively, and $4.7 million and $4.9 million in the nine months ended September 30, 2010 and 2009, respectively. The Company has historically issued stock-based compensation in the form of options, stock appreciation rights (SARs) and nonvested stock. During 2009 and the first nine months of 2010, stock-based compensation has been issued mainly in the form of nonvested stock awards.

The 2010 stock awards generally vest in 5 to 7 years and contain restrictions as to transferability, sale, pledging, or assigning, among others, prior to the end of the vesting period. Dividend and voting rights are conferred upon grant. A summary of the status of the Company s nonvested share awards as of September 30, 2010 and changes during the nine month period then ended is presented below.

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2010	361,399	$ 37.23
Granted	152,907	39.43
Vested	(50,547)	38.88
Forfeited	(6,554)	34.77
Nonvested at September 30, 2010	457,205	$ 37.81

SARs and stock options are granted with an exercise price equal to the market price of the Company s stock at the date of grant and have 10-year contractual terms. SARs, which the Company granted in 2006 and subsequent years, vest on a graded basis over 4 years of continuous service. All SARs must be settled in stock under provisions of the plan. Stock options, which were granted in 2005 and previous years, vest on a graded basis over 3 years of continuous service. In determining compensation cost, the Black-Scholes option-pricing model is used to estimate the fair value of SARs and options on date of grant. No SARs or options were granted during the first nine months of 2010.

A summary of option activity during the first nine months of 2010 is presented below.

(Dollars in thousands, except per share data)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2010	2,287,787	$ 31.30		
Granted				
Forfeited				
Expired	(3,188)	37.30		
Exercised	(284,506)	24.06		
Outstanding at September 30, 2010	2,000,093	$ 32.32	2.8 years	$ 10,545

A summary of SAR activity during the first nine months of 2010 is presented below.

(Dollars in thousands, except per share data)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2010	1,669,753	$ 41.71		
Granted				
Forfeited	(10,026)	40.47		
Expired	(12,733)	41.90		
Exercised	(1,436)	39.07		
Outstanding at September 30, 2010	1,645,558	$ 41.68	6.4 years	$ 16

13. Fair Value Measurements

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

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

Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and inputs that are observable for the assets or liabilities, either directly or indirectly (such as interest rates, yield curves, and prepayment speeds).

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value. These may be internally developed, using the Company s best information and assumptions that a market participant would consider.

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

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

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

Available for sale investment securities

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

Valuation methods and inputs, by class of security:

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

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

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

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

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

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

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

At September 30, 2010, the Company held certain auction rate securities (ARS) in its available for sale portfolio, totaling $154.1 million. Nearly all of these securities were purchased from customers during the third quarter of 2008. The auction process by which the ARS are normally priced has not functioned since the first quarter of 2008, and the fair value of these securities cannot be based on observable market prices due to the illiquidity in the market. The fair values of the ARS are estimated using a discounted cash flows analysis. Estimated cash flows are based on mandatory interest rates paid under failing auctions and projected over an estimated market recovery period. The cash flows are discounted at an estimated market rate reflecting adjustments for liquidity premium and nonperformance risk. Because many of the inputs significant to the measurement are not observable, these measurements are classified as Level 3 measurements.

Trading securities

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

Private equity investments

These securities are held by the Company s venture capital subsidiaries and are included in non-marketable investment securities in the consolidated balance sheets. Valuation of these nonpublic investments requires significant management judgment due to the absence of quoted market prices. Each quarter, valuations are performed utilizing available market data and other factors. Market data includes published trading multiples for private equity investments of similar size. The multiples are considered in conjunction with current operating performance, future expectations, financing and sales transactions, and other investment-specific issues. The Company applies its valuation methodology consistently from period to period, and believes that its methodology is similar to that used by other market participants. These fair value measurements are classified as Level 3.

Derivatives

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

Valuations for interest rate swaps are derived from proprietary models whose significant inputs are readily observable market parameters, primarily yield curves. The results of the models are constantly validated through comparison to active trading in the marketplace. These fair value measurements are classified as Level 2.

Fair value measurements for foreign exchange contracts are derived from a model whose primary inputs are quotations from global market makers, and are classified as Level 2.

The fair values of mortgage loan commitments and forward sales contracts on the associated loans are based on quoted prices for similar loans in the secondary market. However, these prices are adjusted by a factor which considers the likelihood that a commitment will ultimately result in a closed loan. This estimate is based on the Company s historical data and its judgment about future economic trends. Based on the unobservable nature of this adjustment, these measurements are classified as Level 3.

The Company s contracts related to credit risk guarantees are valued under an internally developed methodology which uses significant unobservable inputs and assumptions about the creditworthiness of the counterparty to the guaranteed interest rate swap contract. Consequently, these measurements are classified as Level 3.

Assets held in trust

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

The table below presents the carrying values of assets and liabilities measured at fair value on a recurring basis at September 30, 2010 and December 31, 2009. There were no transfers among levels during the first nine months of 2010.

		Fair Value Measurements Using		
(In thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of September 30, 2010				
Assets:				
Available for sale securities:				
U.S. government and federal agency obligations	**$ 459,245**	**$ 451,790**	**$ 7,455**	**$**
Government-sponsored enterprise obligations	**185,222**		**185,222**	
State and municipal obligations	**1,105,686**		**951,587**	**154,099**
Agency mortgage-backed securities	**2,436,297**		**2,436,297**	
Non-agency mortgage-backed securities	**558,615**		**558,615**	
Other asset-backed securities	**2,194,090**		**2,194,090**	
Other debt securities	**180,459**		**180,459**	
Equity securities	**44,659**	**28,386**	**16,273**	
Trading securities	**20,828**		**20,828**	
Private equity investments	**50,797**			**50,797**
Derivatives*	**25,528**		**25,099**	**429**
Assets held in trust	**3,919**	**3,919**		
Total assets	**7,265,345**	**484,095**	**6,575,925**	**205,325**
Liabilities:				
Derivatives*	**26,786**		**26,413**	**373**
Total liabilities	**$ 26,786**	**$**	**$ 26,413**	**$ 373**
As of December 31, 2009				
Assets:				
Available for sale securities:				
U.S. government and federal agency obligations	$ 447,038	$ 447,038	$	$

Government-sponsored enterprise obligations	165,814		165,814	
State and municipal obligations	939,338		771,502	167,836
Agency mortgage-backed securities	2,262,003		2,262,003	
Non-agency mortgage-backed securities	609,016		609,016	
Other asset-backed securities	1,701,569		1,701,569	
Other debt securities	176,331		176,331	
Equity securities	39,866	25,378	14,488	
Trading securities	10,335		10,335	
Private equity investments	44,827			44,827
Derivatives*	17,984		17,616	368
Assets held in trust	3,419	3,419		
Total assets	6,417,540	475,835	5,728,674	213,031
Liabilities:				
Derivatives*	18,610		18,350	260
Total liabilities	$ 18,610	$	$ 18,350	$ 260

* *The fair value of each class of derivative is shown in Note 10.*

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
(In thousands)	State and Municipal Obligations	Private Equity Investments	Derivatives	Total
For the three months ended September 30, 2010:				
Balance at June 30, 2010	**$ 152,143**	**$ 46,257**	**$ (110)**	**$ 198,290**
Total gains or losses (realized/unrealized):				
Included in earnings		**1,352**	**187**	**1,539**
Included in other comprehensive income	**3,269**			**3,269**
Purchases, issuances, and settlements, net	**(1,313)**	**3,188**	**(21)**	**1,854**
Balance at September 30, 2010	**$ 154,099**	**$ 50,797**	**$ 56**	**$ 204,952**
Total gains or losses for the three months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2010	$	**$ 1,352**	**$ 292**	**$ 1,644**
For the nine months ended September 30, 2010:				
Balance at January 1, 2010	**$ 167,836**	**$ 44,827**	**$ 108**	**$ 212,771**
Total gains or losses (realized/unrealized):				
Included in earnings		**(1,289)**	**79**	**(1,210)**
Included in other comprehensive income	**(10,138)**			**(10,138)**
Purchases, issuances, and settlements, net	**(3,599)**	**7,259**	**(131)**	**3,529**
Balance at September 30, 2010	**$ 154,099**	**$ 50,797**	**$ 56**	**$ 204,952**
Total gains or losses for the nine months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2010	$	**$ (1,089)**	**$ 309**	**$ (780)**

For the three months ended September 30, 2009:

Balance at June 30, 2009	$ 170,263	$ 43,020	$ 247	$ 213,530
Total gains or losses (realized/unrealized):				
Included in earnings		(339)	(324)	(663)
Included in other comprehensive income	1,198			1,198
Purchases, issuances, and settlements, net	(1,397)	119	50	(1,228)
Balance at September 30, 2009	$ 170,064	$ 42,800	$ (27)	$ 212,837
Total gains or losses for the three months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2009	$	$ (339)	$ 79	$ (260)

For the nine months ended September 30, 2009:

Balance at January 1, 2009	$ 167,996	$ 49,494	$ 64	$ 217,554
Total gains or losses (realized/unrealized):				
Included in earnings		(3,216)	(36)	(3,252)
Included in other comprehensive income	3,751			3,751
Purchases, issuances, and settlements, net	(1,683)	(3,478)	(55)	(5,216)
Balance at September 30, 2009	$ 170,064	$ 42,800	$ (27)	$ 212,837
Total gains or losses for the nine months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2009	$	$ (3,216)	$ 88	$ (3,128)

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

(In thousands)	Loan Fees and Sales	Other Non-Interest Income	Investment Securities Gains (Losses), Net	Total
For the three months ended September 30, 2010:				
Total gains or losses included in earnings	**$ 194**	**$ (7)**	**$ 1,352**	**$ 1,539**
Change in unrealized gains or losses relating to assets still held at September 30, 2010	**$ 281**	**$ 11**	**$ 1,352**	**$ 1,644**
For the nine months ended September 30, 2010:				
Total gains or losses included in earnings	**$ 73**	**$ 6**	**$ (1,289)**	**$ (1,210)**
Change in unrealized gains or losses relating to assets still held at September 30, 2010	**$ 281**	**$ 28**	**$ (1,089)**	**$ (780)**
For the three months ended September 30, 2009:				
Total gains or losses included in earnings	$ (328)	$ 4	$ (339)	$ (663)
Change in unrealized gains or losses relating to assets still held at September 30, 2009	$ 75	$ 4	$ (339)	$ (260)
For the nine months ended September 30, 2009:				
Total gains or losses included in earnings	$ (49)	$ 13	$ (3,216)	$ (3,252)

Change in unrealized gains or losses relating to assets still held at September 30, 2009	$ 75	$ 13	$ (3,216)	$ (3,128)

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

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

Collateral dependent impaired loans

While the overall loan portfolio is not carried at fair value, the Company periodically records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral dependent loans when establishing the allowance for loan losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. In determining the value of real estate collateral, the Company relies on external appraisals and assessment of property values by its internal staff. In the case of non-real estate collateral, reliance is placed on a variety of sources, including external estimates of value and judgments based on the experience and expertise of internal specialists. Because many of these inputs are not observable, the measurements are classified as Level 3. Changes in fair value recognized for partial charge-offs of loans and loan impairment reserves on loans held by the Company at September 30, 2010 and 2009 are shown in the table below.

Loans held for sale

Loans held for sale are carried at the lower of cost or fair value. The portfolio consists primarily of student loans, and to a lesser extent, residential real estate loans. The Company s student loans are contracted for sale with the Federal Department of Education (DOE) and various investors in the secondary market. Beginning in 2008, the secondary market for student loans was disrupted by liquidity concerns. Consequently, several investors have been unable to consistently purchase loans under existing contractual terms. Loans under contract to these investors have been evaluated using a fair value measurement method based on a discounted cash flows analysis, which was classified as Level 3 and resulted in an impairment reserve of $828 thousand at December 31, 2009. During the first nine months of

2010, $442 thousand of this reserve was reversed as certain of the related loans were sold. The remainder of the identified portfolio, for which performance concern remains, was carried at $12.4 million at September 30, 2010. The measurement of fair value for the remaining student loans is based on the specific prices mandated in the underlying sale contracts, the estimated exit price, and is classified as Level 2. Fair value measurements on mortgage loans held for sale are based on quoted market prices for similar loans in the secondary market and are classified as Level 2.

Private equity investments and restricted stock

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

Mortgage servicing rights

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

Goodwill and core deposit premium

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

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

Foreclosed assets

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

Long-lived assets held for sale

The Company owns an office building in downtown Kansas City, which formerly housed its check processing operations, which is classified as held for sale. In accordance with the provisions of ASC 360-10-35, it was written down to its estimated fair value, less cost to sell, in June 2010. Fair value was estimated in a process which considered current local commercial real estate market conditions and the judgment of the sales agent on pricing and sales strategy. These fair value measurements are classified as Level 3.

For assets measured at fair value on a nonrecurring basis during the first nine months of 2010 and 2009, and still held as of September 30, 2010 and 2009, the following table provides the adjustments to fair value recognized during the respective periods, the level of valuation assumptions used to determine each adjustment, and the carrying value of the related individual assets or portfolios at September 30, 2010 and 2009.

		Fair Value Measurements Using			
(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) Recognized During the Nine Months Ended September 30
As of September 30, 2010					
Loans	$ **48,858**	$	$	$ **48,858**	$ **(12,681)**
Private equity investments	**980**			**980**	**(100)**
Mortgage servicing rights	**962**			**962**	**(434)**
Foreclosed assets	**8,423**			**8,423**	**(3,016)**
Long-lived assets held for sale	**4,300**			**4,300**	**(969)**

As of September 30, 2009

Loans	$	58,817	$		$		$	58,817	$	(37,637)
Private equity investments		2,250						2,250		(800)
Mortgage servicing rights		1,470						1,470		(58)
Foreclosed assets		2,296						2,296		(457)

14. Fair Value of Financial Instruments

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

Loans

The fair value of loans are estimated by discounting the expected future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. This method of estimating fair value does not incorporate the exit-price concept of fair value prescribed by ASC 820 Fair Value Measurements and Disclosures .

Investment Securities

A detailed description of the fair value measurement of the debt and equity instruments in the available for sale and trading sections of the investment security portfolio is provided in Note 13 on Fair Value Measurements. A schedule of available for sale securities by category and maturity is provided in Note 3 on Investment Securities.

Federal Funds Sold and Securities Purchased under Agreements to Resell, Interest Earning Deposits With Banks and Cash and Due From Banks

The carrying amounts of short-term federal funds sold and securities purchased under agreements to resell, interest earning deposits with banks, and cash and due from banks approximate fair value. Federal funds sold and securities purchased under agreements to resell classified as short-term generally mature in 90 days or less. The fair value of long-term securities purchased under agreements to resell is estimated by discounting contractual maturities using an estimate of the current market rate for similar instruments.

Accrued Interest Receivable/Payable

The carrying amounts of accrued interest receivable and accrued interest payable approximate their fair values because of the relatively short time period between the accrual period and the expected receipt or payment due date.

Derivative Instruments

A detailed description of the fair value measurement of derivative instruments is provided in Note 13 on Fair Value Measurements. Fair values are generally estimated using observable market prices or pricing models.

Deposits

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

Borrowings

The fair value of short-term borrowings such as federal funds purchased and securities sold under agreements to repurchase, which generally mature or reprice within 90 days, approximates their carrying value. The fair value of long-term structured repurchase agreements and other long-term debt is estimated by discounting contractual maturities using an estimate of the current market rate for similar instruments.

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

	September 30, 2010	
(In thousands)	**Carrying Amount**	**Estimated Fair Value**
Financial Assets		
Loans, including held for sale	$ 9,954,373	$ 10,034,336
Available for sale investment securities	7,164,273	7,164,273
Trading securities	20,828	20,828
Non-marketable securities	110,487	110,487
Short-term federal funds sold and securities purchased under agreements to resell	4,550	4,550
Long-term securities purchased under agreements to resell	350,000	358,573
Accrued interest receivable	72,899	72,899
Derivative instruments	25,528	25,528
Cash and due from banks	412,315	412,315
Interest earning deposits with banks	4,047	4,047
Financial Liabilities		
Non-interest bearing demand deposits	$ 1,752,930	$ 1,752,930
Savings, interest checking and money market deposits	9,712,088	9,712,088
Time open and C.D. s	2,926,541	2,953,800
Federal funds purchased and securities sold under agreements to repurchase	1,530,555	1,530,953
Other borrowings	337,863	363,475
Accrued interest payable	14,938	14,938
Derivative instruments	26,786	26,786

Off-Balance Sheet Financial Instruments

The fair value of letters of credit and commitments to extend credit is based on the fees currently charged to enter into similar agreements. The aggregate of these fees is not material.

Limitations

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

15. Pending Litigation

On April 6, 2010 a suit was filed against Commerce Bank, N.A. (the Bank) in the U.S. District Court for the Western District of Missouri by a customer alleging that overdraft fees relating to debit card transactions have been unfairly assessed by the Bank. The suit seeks class-action status for Bank customers who may have been similarly affected. A second suit alleging the same facts and also seeking class-action status was filed on June 4, 2010 in Missouri state court. Since these cases are in a very early stage, a probable outcome is presently not determinable. The Company believes the claims to be without merit and intends to defend these actions vigorously.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes and with the statistical information and financial data appearing in this report as well as the Company s 2009 Annual Report on Form 10-K. Results of operations for the three and nine month periods ended September 30, 2010 are not necessarily indicative of results to be attained for any other period.

Forward Looking Information

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

Critical Accounting Policies

The Company s consolidated financial statements are prepared based on the application of certain accounting policies, some of which 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 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 methodologies used in establishing the allowance is provided in the Provision and Allowance for Loan Losses section of this discussion.

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, developed based on market data obtained from sources independent of the Company. When such information is not available, the Company employs valuation techniques which utilize unobservable inputs, or those which reflect the Company s own assumptions about market participants, based on the best information available in the circumstances. These valuation methods typically involve cash flow and other financial modeling techniques. Changes in underlying factors, assumptions, estimates, or other inputs to the valuation techniques could have a material impact on the Company s future financial condition and results of operations. Assets and liabilities carried at fair value inherently result in more financial statement volatility. Under the fair value measurement hierarchy, fair value measurements are classified as Level 1 (quoted prices), Level 2 (based on observable inputs) or Level 3 (based on unobservable, internally-derived inputs), as discussed in more detail in Note 13 to the consolidated financial statements. Most of the available for sale investment portfolio is priced utilizing industry-standard models that consider various assumptions which are observable in the marketplace, or can be derived from observable data. Such securities totaled approximately $6.5 billion, or 91.1% of the available for sale portfolio at September 30, 2010, and were classified as Level 2 measurements. The Company also holds $154.1 million in auction rate securities. These were classified as Level 3 measurements, as no market currently exists for these securities, and fair values were derived from internally generated cash flow valuation models which used unobservable inputs which were 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 September 30, 2010, non-agency guaranteed mortgage-backed securities with a par value of $197.5 million were identified as other than temporarily impaired. The credit-related impairment loss on these securities amounted to $6.7 million, which was recorded in the consolidated income statement in investment securities gains (losses), net. The noncredit-related loss on these securities, which was recorded in other comprehensive income, was $14.9 million on a pre-tax basis.

The Company, through its direct holdings and its Small Business Investment 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 $55.2 million at September 30, 2010. 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, their fair values are internally developed using available information and management s judgment, and 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, and 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.

Selected Financial Data

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2010	2009	**2010**	2009
Per Share Data				
Net income per common share basic	**$ .67**	$ .63	**$ 1.92**	$ 1.47
Net income per common share diluted	**.67**	.63	**1.91**	1.47
Cash dividends	**.235**	.229	**.705**	.686
Book value			**24.54**	22.33
Market price			**37.59**	35.47
Selected Ratios				
(Based on average balance sheets)				
Loans to deposits(1)	**68.88%**	77.40%	**71.88%**	81.96%
Non-interest bearing deposits to total deposits	**6.93**	6.33	**6.85**	6.12
Equity to loans(1)	**20.18**	16.62	**19.17**	15.01
Equity to deposits	**13.90**	12.86	**13.78**	12.30
Equity to total assets	**10.84**	10.13	**10.81**	9.64
Return on total assets	**1.19**	1.16	**1.17**	.91
Return on total equity	**10.98**	11.49	**10.85**	9.49
(Based on end-of-period data)				
Non-interest income to revenue(2)	**38.44**	38.44	**37.76**	38.36
Efficiency ratio(3)	**59.51**	57.75	**59.48**	60.76
Tier I risk-based capital ratio			**14.27**	12.77
Total risk-based capital ratio			**15.64**	14.14
Tangible equity to assets ratio(4)			**10.26**	9.60
Tier I leverage ratio			**9.93**	9.65

(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 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).*

Results of Operations

Summary

(Dollars in thousands)	Three Months Ended September 30 **2010**	2009	% Change	Nine Months Ended September 30 **2010**	2009	% Change
Net interest income	**$ 159,437**	$ 163,539	(2.5)%	**$ 485,255**	$ 470,999	3.0%
Provision for loan losses	**(21,844)**	(35,361)	(38.2)	**(78,353)**	(119,695)	(34.5)
Non-interest income	**99,543**	102,135	(2.5)	**294,442**	293,128	.4
Investment securities gains (losses), net	**16**	(945)	N.M.	**(2,989)**	(5,870)	(49.1)
Non-interest expense	**(155,119)**	(154,489)	.4	**(466,888)**	(467,386)	(.1)
Income taxes	**(26,012)**	(23,415)	11.1	**(71,817)**	(52,264)	37.4
Non-controlling interest (expense) income	**(136)**	185	N.M.	**139**	541	(74.3)
Net income	**$ 55,885**	$ 51,649	8.2%	**$ 159,789**	$ 119,453	33.8%

For the quarter ended September 30, 2010, net income amounted to $55.9 million, an increase of $4.2 million, or 8.2%, compared to the third quarter of the previous year. For the current quarter, the annualized return on average assets was 1.19%, the annualized return on average equity was 10.98%, and the efficiency ratio was 59.41%. Diluted earnings per share was $.67, an increase of 6.3% compared to $.63 per share in the third quarter of 2009. Compared to the third quarter of last year, net interest income decreased $4.1 million, or 2.5%, mainly due to lower rates earned on investment securities and lower loan balances, partly offset by higher investment security balances and lower rates paid on deposits. In addition, non-interest income decreased $2.6 million, largely due to a $6.1 million decrease in deposit account fees. This reduction occurred as the Company implemented new regulations on July 1, 2010 which limited overdraft fees on debit card transactions. The effect was partly offset by increases in bank card and trust fees. Compared to the same period last year, non-interest expense increased $630 thousand, or .4%, due mainly to a $1.3 million increase in data processing and software expense and the reversal in the previous period of $2.5 million of Visa litigation expense, partly offset by declines of $1.8 million in salaries and benefits expense and $1.3 million in supplies and communication costs. The provision for loan losses totaled $21.8 million for the current quarter, representing a decrease of $13.5 million from the third quarter of 2009.

Net income for the first nine months of 2010 was $159.8 million, an increase of $40.3 million, or 33.8%, over the same period in the previous year. For the first nine months of 2010, the annualized return on average assets was 1.17%, the annualized return on average equity was 10.85%, and the efficiency ratio was 59.48%. Diluted earnings per share was $1.91, an increase of 29.9% over $1.47 per share in the same period last year. Compared to the first nine months of 2009, net interest income grew $14.3 million, or 3.0%. Non-interest income grew $1.3 million, or .4%, largely due to an increase of $19.3 million in bank card transaction fees and $2.4 million in trust fees, which were partially offset by declines in deposit account fees, bond trading income, consumer brokerage services, and loan fees and sales. Non-interest expense remained well-controlled, declining $498 thousand compared to the same period last year. The provision for loan losses totaled $78.4 million, down $41.3 million, or 34.5%, compared to the same period last year.

Net Interest Income

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.

Analysis of Changes in Net Interest Income

	Three Months Ended September 30, 2010 vs. 2009			Nine Months Ended September 30, 2010 vs. 2009		
	Change due to			Change due to		
(In thousands)	Average Volume	Average Rate	Total	Average Volume	Average Rate	Total
Interest income, fully taxable equivalent basis:						
Loans	$ (8,545)	$ (3,587)	$ (12,132)	$ (31,890)	$ (4,084)	$ (35,974)