

COMMERCE BANCSHARES INC /MO/  
Form 10-Q  
November 05, 2018  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
(Mark One)

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

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For the quarterly period ended September 30, 2018

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

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For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 0-2989  
COMMERCE BANCSHARES, INC.  
(Exact name of registrant as specified  
in its charter)

Missouri 43-0889454  
(State of Incorporation) (IRS Employer Identification No.)

1000 Walnut, 64106  
Kansas City, MO  
(Address of principal executive offices) (Zip Code)

(816) 234-2000  
(Registrant's telephone number, including area code)

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically 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 such files).

Yes  No

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

Large accelerated	Accelerated	Non-accelerated	Smaller reporting	Emerging growth
filer <input checked="" type="checkbox"/>	filer <input type="checkbox"/>	filer <input type="checkbox"/>	company <input type="checkbox"/>	company <input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes  No

As of November 1, 2018, the registrant had outstanding 106,227,582 shares of its \$5 par value common stock, registrant's only class of common stock.

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Commerce Bancshares, Inc. and Subsidiaries

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## PART I: FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

Commerce Bancshares, Inc. and Subsidiaries  
CONSOLIDATED BALANCE SHEETS

	September 30, 2018 (Unaudited) (In thousands)	December 31, 2017
<b>ASSETS</b>		
Loans	\$ 13,955,559	\$ 13,983,674
Allowance for loan losses	(159,732 )	(159,532 )
Net loans	13,795,827	13,824,142
Loans held for sale (including \$10,256,000 and \$15,327,000 of residential mortgage loans carried at fair value at September 30, 2018 and December 31, 2017, respectively)	16,890	21,398
Investment securities:		
Available for sale debt (\$553,227,000 and \$662,515,000 pledged at September 30, 2018 and December 31, 2017, respectively, to secure swap and repurchase agreements)	8,674,986	8,725,442
Trading debt	19,676	18,269
Equity	4,467	50,591
Other	127,120	99,005
Total investment securities	8,826,249	8,893,307
Federal funds sold and short-term securities purchased under agreements to resell	14,375	42,775
Long-term securities purchased under agreements to resell	700,000	700,000
Interest earning deposits with banks	334,752	30,631
Cash and due from banks	443,004	438,439
Land, buildings and equipment, net	331,869	335,110
Goodwill	138,921	138,921
Other intangible assets, net	8,470	7,618
Other assets	452,035	401,074
Total assets	\$ 25,062,392	\$ 24,833,415
<b>LIABILITIES AND EQUITY</b>		
Deposits:		
Non-interest bearing	\$ 6,728,605	\$ 7,158,962
Savings, interest checking and money market	11,733,057	11,499,620
Time open and C.D.'s of less than \$100,000	585,765	634,646
Time open and C.D.'s of \$100,000 and over	1,086,193	1,132,218
Total deposits	20,133,620	20,425,446
Federal funds purchased and securities sold under agreements to repurchase	1,862,117	1,507,138
Other borrowings	1,534	1,758
Other liabilities	257,311	180,889
Total liabilities	22,254,582	22,115,231
Commerce Bancshares, Inc. stockholders' equity:		
Preferred stock, \$1 par value		
Authorized 2,000,000 shares; issued 6,000 shares	144,784	144,784

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Common stock, \$5 par value		
Authorized 120,000,000 shares;		
issued 107,081,397 shares	535,407	535,407
Capital surplus	1,804,031	1,815,360
Retained earnings	493,641	221,374
Treasury stock of 516,507 shares at September 30, 2018		
and 276,968 shares at December 31, 2017, at cost	(33,174	) (14,473 )
Accumulated other comprehensive income (loss)	(141,596	) 14,108
Total Commerce Bancshares, Inc. stockholders' equity	2,803,093	2,716,560
Non-controlling interest	4,717	1,624
Total equity	2,807,810	2,718,184
Total liabilities and equity	\$25,062,392	\$24,833,415
See accompanying notes to consolidated financial statements.		

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CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	For the Three Months Ended September 30 2018		For the Nine Months Ended September 30 2017	
	2018	2017	2018	2017
	(Unaudited)			
<b>INTEREST INCOME</b>				
Interest and fees on loans	\$ 159,182	\$ 138,827	\$ 460,332	\$ 401,423
Interest and fees on loans held for sale	315	287	991	746
Interest on investment securities	59,792	50,585	178,598	160,825
Interest on federal funds sold and short-term securities purchased under agreements to resell	69	78	426	138
Interest on long-term securities purchased under agreements to resell	3,915	3,805	11,814	11,282
Interest on deposits with banks	1,478	662	4,208	1,421
Total interest income	224,751	194,244	656,369	575,835
<b>INTEREST EXPENSE</b>				
Interest on deposits:				
Savings, interest checking and money market	7,230	4,441	19,338	12,673
Time open and C.D.'s of less than \$100,000	834	676	2,190	1,994
Time open and C.D.'s of \$100,000 and over	3,899	2,784	10,221	8,369
Interest on federal funds purchased and securities sold under agreements to repurchase	5,022	2,846	12,979	6,423
Interest on other borrowings	12	906	36	2,705
Total interest expense	16,997	11,653	44,764	32,164
Net interest income	207,754	182,591	611,605	543,671
Provision for loan losses	9,999	10,704	30,438	32,590
Net interest income after provision for loan losses	197,755	171,887	581,167	511,081
<b>NON-INTEREST INCOME</b>				
Bank card transaction fees	42,427	39,166	127,095	112,212
Trust fees	37,400	34,620	110,498	99,754
Deposit account charges and other fees	23,755	22,659	70,630	67,462
Capital market fees	1,595	1,755	5,878	6,253
Consumer brokerage services	3,884	3,679	11,623	11,054
Loan fees and sales	3,579	3,590	9,670	10,849
Other	11,074	11,418	32,860	34,296
Total non-interest income	123,714	116,887	368,254	341,880
INVESTMENT SECURITIES GAINS (LOSSES), NET	4,306	(3,037)	6,641	(2,158)
<b>NON-INTEREST EXPENSE</b>				
Salaries and employee benefits	116,194	111,382	347,677	332,580
Net occupancy	11,631	11,459	34,333	34,332
Equipment	4,592	4,491	13,617	13,876
Supplies and communication	5,103	5,517	15,542	16,672
Data processing and software	22,056	19,968	63,762	59,908
Marketing	4,999	4,676	14,946	12,388
Deposit insurance	3,167	3,479	9,750	10,542
Community service	580	3,006	1,965	8,866
Other	16,737	15,239	47,604	46,320
Total non-interest expense	185,059	179,217	549,196	535,484

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Income before income taxes	140,716	106,520	406,866	315,319
Less income taxes	26,647	32,294	79,412	90,402
Net income	114,069	74,226	327,454	224,917
Less non-controlling interest expense (income)	1,493	(338)	) 3,564	(111)
Net income attributable to Commerce Bancshares, Inc.	112,576	74,564	323,890	225,028
Less preferred stock dividends	2,250	2,250	6,750	6,750
Net income available to common shareholders	\$ 110,326	\$ 72,314	\$ 317,140	\$ 218,278
Net income per common share — basic	\$ 1.03	\$ .68	\$ 2.97	\$ 2.04
Net income per common share — diluted	\$ 1.03	\$ .67	\$ 2.96	\$ 2.03

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	For the Three Months Ended September 30		For the Nine Months Ended September 30		
	2018	2017	2018	2017	
	(Unaudited)				
Net income	\$114,069	\$74,226	\$327,454	\$224,917	
Other comprehensive income (loss):					
Net unrealized gains (losses) on securities for which a portion of an other-than-temporary impairment has been recorded in earnings	53	286	(25	)457	
Net unrealized gains (losses) on other securities	(32,232	)24,356	(125,442	)54,599	
Pension loss amortization	393	349	1,180	1,030	
Unrealized losses on cash flow hedge derivatives	(1,029	)—	(1,029	)—	
Other comprehensive income (loss)	(32,815	)24,991	(125,316	)56,086	
Comprehensive income	81,254	99,217	202,138	281,003	
Less non-controlling interest expense (income)	1,493	(338	) 3,564	(111	)
Comprehensive income attributable to Commerce Bancshares, Inc.	\$79,761	\$99,555	\$198,574	\$281,114	
See accompanying notes to consolidated financial statements.					



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Commerce Bancshares, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Commerce Bancshares, Inc. Shareholders

(In thousands, except per share data)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total
	(Unaudited)							
Balance December 31, 2017	\$ 144,784	\$ 535,407	\$ 1,815,360	\$ 221,374	\$ (14,473)	\$ 14,108	\$ 1,624	\$ 2,718,184
Adoption of ASU 2018-02				(2,932 )		2,932		—
Adoption of ASU 2016-01				33,320		(33,320 )		—
Net income				323,890			3,564	327,454
Other comprehensive loss						(125,316 )		(125,316 )
Distributions to non-controlling interest							(471 )	(471 )
Purchases of treasury stock					(39,575 )			(39,575 )
Issuance of stock under purchase and equity compensation plans			(20,884 )		20,874			(10 )
Stock-based compensation			9,555					9,555
Cash dividends on common stock (\$.705 per share)				(75,261 )				(75,261 )
Cash dividends on preferred stock (\$1.125 per depository share)				(6,750 )				(6,750 )
Balance September 30, 2018	\$ 144,784	\$ 535,407	\$ 1,804,031	\$ 493,641	\$ (33,174)	\$ (141,596 )	\$ 4,717	\$ 2,807,810
Balance December 31, 2016	\$ 144,784	\$ 510,015	\$ 1,552,454	\$ 292,849	\$ (15,294)	\$ 10,975	\$ 5,349	\$ 2,501,132
Adoption of ASU 2016-09			3,441	(2,144 )				1,297
Net income				225,028			(111 )	224,917
Other comprehensive income						56,086		56,086
Distributions to non-controlling interest							(1,305 )	(1,305 )
Purchases of treasury stock					(11,320 )			(11,320 )
Issuance of stock under purchase and equity compensation plans			(16,726 )		16,719			(7 )

Stock-based compensation	9,149							9,149
Cash dividends on common stock (\$.643 per share)		(68,722 )						(68,722 )
Cash dividends on preferred stock (\$1.125 per depositary share)		(6,750 )						(6,750 )
Balance September 30, 2017	\$ 144,784	\$ 510,015	\$ 1,548,318	\$ 440,261	\$ (9,895 )	\$ 67,061	\$ 3,933	\$ 2,704,477

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	For the Nine Months Ended September 30	
	2018	2017
	(Unaudited)	
<b>OPERATING ACTIVITIES:</b>		
Net income	\$327,454	\$224,917
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	30,438	32,590
Provision for depreciation and amortization	28,824	29,521
Amortization of investment security premiums, net	18,758	28,173
Investment securities (gains) losses, net (A)	(6,641 )	2,158
Net gains on sales of loans held for sale	(4,770 )	(6,200 )
Originations of loans held for sale	(149,397 )	(162,552 )
Proceeds from sales of loans held for sale	156,637	164,588
Net (increase) decrease in trading debt securities	(4,886 )	7,234
Stock-based compensation	9,555	9,149
Increase in interest receivable	(5,021 )	(3,757 )
Increase (decrease) in interest payable	689	(223 )
Increase in income taxes payable	30,107	201
Other changes, net	14,964	8,511
Net cash provided by operating activities	446,711	334,310
<b>INVESTING ACTIVITIES:</b>		
Proceeds from sales of investment securities (A)	193,047	369,036
Proceeds from maturities/pay downs of investment securities (A)	1,222,998	1,384,993
Purchases of investment securities (A)	(1,520,235 )	(1,072,782 )
Net increase in loans	(3,588 )	(364,765 )
Long-term securities purchased under agreements to resell	(100,000 )	(75,000 )
Repayments of long-term securities purchased under agreements to resell	100,000	100,000
Purchases of land, buildings and equipment	(21,358 )	(22,853 )
Sales of land, buildings and equipment	2,342	2,570
Net cash provided by (used in) investing activities	(126,794 )	321,199
<b>FINANCING ACTIVITIES:</b>		
Net decrease in non-interest bearing, savings, interest checking and money market deposits	(177,368 )	(12,490 )
Net decrease in time open and C.D.'s	(94,906 )	(424,462 )
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	354,979	(314,921 )
Repayment of long-term borrowings	(224 )	(218 )
Net increase in short-term borrowings	—	722
Purchases of treasury stock	(39,575 )	(11,320 )
Issuance of stock under equity compensation plans	(10 )	(7 )
Cash dividends paid on common stock	(75,261 )	(68,722 )
Cash dividends paid on preferred stock	(6,750 )	(6,750 )
Net cash used in financing activities	(39,115 )	(838,168 )
Increase (decrease) in cash, cash equivalents and restricted cash	280,802	(182,659 )
Cash, cash equivalents and restricted cash at beginning of year	524,352	782,435
Cash, cash equivalents and restricted cash at September 30	\$805,154	\$599,776
(A) Available for sale debt securities, equity securities and other securities		

Income tax payments, net	\$46,122	\$87,449
Interest paid on deposits and borrowings	\$44,074	\$32,387
Loans transferred to foreclosed real estate	\$1,312	\$1,166
See accompanying notes to consolidated financial statements.		

Restricted cash is comprised of cash collateral posted by the Company to secure interest rate swap agreements. This balance is included in other assets in the consolidated balance sheets and totaled \$13.0 million and \$12.8 million at September 30, 2018 and 2017, respectively.

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Commerce Bancshares, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 (Unaudited)

1. Principles of Consolidation and Presentation

The accompanying consolidated financial statements include the accounts of Commerce Bancshares, Inc. and all majority-owned subsidiaries (the Company). Most of the Company's operations are conducted by its subsidiary bank, Commerce Bank (the Bank). The consolidated financial statements in this report have not been audited by an independent registered public accounting firm, but 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. All significant intercompany accounts and transactions have been eliminated. Certain reclassifications were made to 2017 data to conform to current year presentation. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Management has evaluated subsequent events for potential recognition or disclosure. The results of operations for the three and nine month periods ended September 30, 2018 are not necessarily indicative of results to be attained for the full year or any other interim period.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission. Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company's most recent Annual Report on Form 10-K, containing the latest audited consolidated financial statements and notes thereto.

These financial statements reflect the adoption of several FASB Accounting Standards Updates (ASUs) on January 1, 2018. In some cases, the adoption of these ASUs resulted in changes to former accounting policies as described in Note 1 to the financial statements in the 2017 Annual Report on Form 10-K. The ASUs which affected the Company's 2018 financial statements include:

• ASU 2014-09, Revenue from Contracts with Customers, which is discussed further in Note 13.

• ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which is discussed further in Note 3 - Investment Securities, Note 8 - Accumulated Other Comprehensive Income, and Note 15 - Fair Value of Financial Instruments.

• ASU 2016-18, Restricted Cash, which requires that the beginning and end of period amounts shown on the statement of cash flows include not only cash and cash equivalents, but also restricted cash and restricted cash equivalents, as considered such by the reporting entity.

• ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which is discussed further in Note 6 - Pension.

• ASU 2018-02, Reclassification for Certain Tax Effects from Accumulated Other Comprehensive Income, which is discussed further in Note 8 - Accumulated Other Comprehensive Income.



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## 2. Loans and Allowance for Loan Losses

Major classifications within the Company's held for investment loan portfolio at September 30, 2018 and December 31, 2017 are as follows:

(In thousands)	September 30, 2018	December 31, 2017
Commercial:		
Business	\$ 4,966,722	\$ 4,958,554
Real estate – construction and land	999,691	968,820
Real estate – business	2,726,042	2,697,452
Personal Banking:		
Real estate – personal	2,120,672	2,062,787
Consumer	1,967,465	2,104,487
Revolving home equity	375,322	400,587
Consumer credit card	788,111	783,864
Overdrafts	11,534	7,123
Total loans	\$ 13,955,559	\$ 13,983,674

At September 30, 2018, loans of \$3.7 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 \$1.7 billion were pledged at the Federal Reserve Bank as collateral for discount window borrowings.

## Allowance for loan losses

A summary of the activity in the allowance for loan losses during the three and nine months ended September 30, 2018 and 2017, respectively, follows:

(In thousands)	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	Commercial	Personal Banking	Total	Commercial	Personal Banking	Total
Balance at beginning of period	\$93,851	\$ 65,681	\$ 159,532	\$93,704	\$ 65,828	\$ 159,532
Provision	411	9,588	9,999	2	30,436	30,438
Deductions:						
Loans charged off	485	12,515	13,000	1,213	39,203	40,416
Less recoveries on loans	314	2,887	3,201	1,598	8,580	10,178
Net loan charge-offs (recoveries)	171	9,628	9,799	(385)	30,623	30,238
Balance September 30, 2018	\$94,091	\$ 65,641	\$ 159,732	\$94,091	\$ 65,641	\$ 159,732
Balance at beginning of period	\$92,739	\$ 65,093	\$ 157,832	\$91,361	\$ 64,571	\$ 155,932
Provision	24	10,680	10,704	1,026	31,564	32,590
Deductions:						

Loans charged off	378	13,592	13,970	1,455	39,337	40,792
Less recoveries on loans	651	2,615	3,266	2,104	7,998	10,102
Net loan charge-offs (recoveries)	(273)	10,977	10,704	(649)	31,339	30,690
Balance						
September 30, 2017	\$93,036	\$64,796	\$157,832	\$93,036	\$64,796	\$157,832



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The following table shows the balance in the allowance for loan losses and the related loan balance at September 30, 2018 and December 31, 2017, disaggregated on the basis of impairment methodology. Impaired loans evaluated under Accounting Standards Codification (ASC) 310-10-35 include loans on non-accrual status, which are individually evaluated for impairment, and other impaired loans discussed below, which are deemed to have similar risk characteristics and are collectively evaluated. All other loans are collectively evaluated for impairment under ASC 450-20.

(In thousands)	Impaired Loans		All Other Loans	
	Allowance for Loan Losses	Loans Outstanding	Allowance for Loan Losses	Loans Outstanding
September 30, 2018				
Commercial	\$2,746	\$ 91,119	\$91,345	\$8,601,336
Personal Banking	898	17,641	64,743	5,245,463
Total	\$3,644	\$ 108,760	\$156,088	\$13,846,799
December 31, 2017				
Commercial	\$3,067	\$ 92,613	\$90,637	\$8,532,213
Personal Banking	1,176	22,182	64,652	5,336,666
Total	\$4,243	\$ 114,795	\$155,289	\$13,868,879

## Impaired loans

The table below shows the Company's investment in impaired loans at September 30, 2018 and December 31, 2017. These loans consist of all loans on non-accrual status and other restructured loans whose terms have been modified and classified as troubled debt restructurings. These restructured loans are performing in accordance with their modified terms, and because the Company believes it probable that all amounts due under the modified terms of the agreements will be collected, interest on these loans is being recognized on an accrual basis. They are discussed further in the "Troubled debt restructurings" section on page 15.

(In thousands)	Sept. 30, 2018	Dec. 31, 2017
Non-accrual loans	\$8,369	\$11,983
Restructured loans (accruing)	100,391	102,812
Total impaired loans	\$108,760	\$114,795

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The following table provides additional information about impaired loans held by the Company at September 30, 2018 and December 31, 2017, segregated between loans for which an allowance for credit losses has been provided and loans for which no allowance has been provided.

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
September 30, 2018			
With no related allowance recorded:			
Business	\$ 4,871	\$ 8,936	\$ —
	\$ 4,871	\$ 8,936	\$ —
With an allowance recorded:			
Business	\$ 75,324	\$ 75,612	\$ 2,262
Real estate – construction and land	412	416	11
Real estate – business	10,512	11,112	473
Real estate – personal	5,177	7,347	274
Consumer	5,309	5,309	48
Revolving home equity	68	68	—
Consumer credit card	7,087	7,087	576
	\$ 103,889	\$ 106,951	\$ 3,644
Total	\$ 108,760	\$ 115,887	\$ 3,644
December 31, 2017			
With no related allowance recorded:			
Business	\$ 5,356	\$ 9,000	\$ —
Real estate – business	1,299	1,303	—
Consumer	779	817	—
	\$ 7,434	\$ 11,120	\$ —
With an allowance recorded:			
Business	\$ 72,589	\$ 73,168	\$ 2,455
Real estate – construction and land	837	841	27
Real estate – business	12,532	13,071	585
Real estate – personal	9,126	11,914	532
Consumer	5,388	5,426	67
Revolving home equity	204	204	11
Consumer credit card	6,685	6,685	566
	\$ 107,361	\$ 111,309	\$ 4,243
Total	\$ 114,795	\$ 122,429	\$ 4,243

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Total average impaired loans for the three and nine month periods ended September 30, 2018 and 2017, respectively, are shown in the table below.

(In thousands)	Commercial	Personal Banking	Total
Average Impaired Loans:			
For the three months ended September 30, 2018			
Non-accrual loans	\$ 7,477	\$ 1,862	\$ 9,339
Restructured loans (accruing)	83,493	16,409	99,902
Total	\$ 90,970	\$ 18,271	\$ 109,241
For the nine months ended September 30, 2018			
Non-accrual loans	\$ 7,888	\$ 2,261	\$ 10,149
Restructured loans (accruing)	81,543	17,426	98,969
Total	\$ 89,431	\$ 19,687	\$ 109,118
For the three months ended September 30, 2017			
Non-accrual loans	\$ 8,938	\$ 4,238	\$ 13,176
Restructured loans (accruing)	42,930	18,691	61,621
Total	\$ 51,868	\$ 22,929	\$ 74,797
For the nine months ended September 30, 2017			
Non-accrual loans	\$ 9,800	\$ 4,098	\$ 13,898
Restructured loans (accruing)	36,567	16,901	53,468
Total	\$ 46,367	\$ 20,999	\$ 67,366

The table below shows interest income recognized during the three and nine month periods ended September 30, 2018 and 2017, respectively, for impaired loans held at the end of each period. This interest all relates to accruing restructured loans, as discussed in the "Troubled debt restructurings" section on page 15.

(In thousands)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Interest income recognized on impaired loans:				
Business	\$939	\$473	\$2,817	\$1,418
Real estate – construction and land	6	10	19	30
Real estate – business	110	118	329	354
Real estate – personal	47	104	142	311
Consumer	79	79	238	236
Revolving home equity	2	7	6	20
Consumer credit card	129	162	386	486
Total	\$1,312	\$953	\$3,937	\$2,855

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## Delinquent and non-accrual loans

The following table provides aging information on the Company's past due and accruing loans, in addition to the balances of loans on non-accrual status, at September 30, 2018 and December 31, 2017.

(In thousands)	Current or Less Than 30 Days Past Due	30 – 89 Days Past Due	90 Days Past Due and Still Accruing	Non-accrual	Total
September 30, 2018					
Commercial:					
Business	\$4,957,570	\$3,673	\$ 348	\$ 5,131	\$4,966,722
Real estate – construction and land	995,134	4,553	—	4	999,691
Real estate – business	2,708,294	16,281	—	1,467	2,726,042
Personal Banking:					
Real estate – personal	2,110,198	7,571	1,136	1,767	2,120,672
Consumer	1,936,208	28,249	3,008	—	1,967,465
Revolving home equity	372,931	1,517	874	—	375,322
Consumer credit card	769,158	10,328	8,625	—	788,111
Overdrafts	11,199	335	—	—	11,534
Total	\$13,860,692	\$72,507	\$ 13,991	\$ 8,369	\$13,955,559
December 31, 2017					
Commercial:					
Business	\$4,949,148	\$3,085	\$ 374	\$ 5,947	\$4,958,554
Real estate – construction and land	967,321	1,473	21	5	968,820
Real estate – business	2,694,234	482	—	2,736	2,697,452
Personal Banking:					
Real estate – personal	2,050,787	6,218	3,321	2,461	2,062,787
Consumer	2,067,025	32,674	3,954	834	2,104,487
Revolving home equity	397,349	1,962	1,276	—	400,587
Consumer credit card	764,568	10,115	9,181	—	783,864
Overdrafts	6,840	283	—	—	7,123
Total	\$13,897,272	\$56,292	\$ 18,127	\$ 11,983	\$13,983,674

## Credit quality

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



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## Commercial Loans

(In thousands)	Business	Real Estate-Construction	Real Estate- Business	Total
September 30, 2018				
Pass	\$4,772,286	\$ 987,352	\$2,649,964	\$8,409,602
Special mention	40,307	11,474	29,016	80,797
Substandard	148,998	861	45,595	195,454
Non-accrual	5,131	4	1,467	6,602
Total	\$4,966,722	\$ 999,691	\$2,726,042	\$8,692,455
December 31, 2017				
Pass	\$4,740,013	\$ 955,499	\$2,593,005	\$8,288,517
Special mention	59,177	10,614	50,577	120,368
Substandard	153,417	2,702	51,134	207,253
Non-accrual	5,947	5	2,736	8,688
Total	\$4,958,554	\$ 968,820	\$2,697,452	\$8,624,826

The credit quality of Personal Banking loans is monitored primarily on the basis of aging/delinquency, and this information is provided in the table in the above "Delinquent and non-accrual loans" section. In addition, FICO scores are obtained and updated on a quarterly basis for most of the loans in the Personal Banking portfolio. This is a published credit score designed to measure the risk of default by taking into account various factors from a borrower's financial history. The Bank normally obtains a FICO score at the loan's origination and renewal dates, and updates are obtained on a quarterly basis. Excluded from the table below are certain personal real estate loans for which FICO scores are not obtained because they generally pertain to commercial customer activities and are often underwritten with other collateral considerations. These loans totaled \$205.4 million at September 30, 2018 and \$219.2 million at December 31, 2017. The table also excludes consumer loans related to the Company's patient healthcare loan program, which totaled \$170.3 million at September 30, 2018 and \$145.0 million at December 31, 2017. As the healthcare loans are guaranteed by the hospital, FICO scores are not considered relevant for this program. The personal real estate loans and consumer loans excluded below totaled less than 8% of the Personal Banking portfolio. For the remainder of loans in the Personal Banking portfolio, the table below shows the percentage of balances outstanding at September 30, 2018 and December 31, 2017 by FICO score.

## Personal Banking Loans

	% of Loan Category			
	Real	Revolving	Consumer	
	Estate - Consumer Personal	Home Equity	Credit Card	
September 30, 2018				
FICO score:				
Under 600	1.0 %	3.2 %	1.0 %	4.4 %
600 - 659	2.0	4.9	1.8	14.2
660 - 719	9.2	18.3	9.5	35.3
720 - 779	25.4	25.8	23.4	26.6
780 and over	62.4	47.8	64.3	19.5
Total	100.0 %	100.0		