

COMMERCE BANCSHARES INC /MO/
Form 10-Q
August 06, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark
One)

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

For the quarterly period ended June 30, 2012

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

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

COMMERCE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Missouri

43-0889454

(State of Incorporation)

(IRS Employer Identification No.)

1000 Walnut,

64106

Kansas City, MO

(Address of principal executive offices)

(Zip Code)

(816) 234-2000

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

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

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

Yes No

As of July 31, 2012, the registrant had outstanding 87,630,025 shares of its \$5 par value common stock, registrant's only class of common stock.

Commerce Bancshares, Inc. and Subsidiaries

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PART I: FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	June 30, 2012	December 31, 2011
	(Unaudited)	
	(In thousands)	
ASSETS		
Loans	\$9,376,915	\$9,177,478
Allowance for loan losses	(178,533)	(184,532)
Net loans	9,198,382	8,992,946
Loans held for sale	8,874	31,076
Investment securities:		
Available for sale (\$629,599,000 and \$418,046,000 pledged in 2012 and 2011, respectively, to secure repurchase agreements)	9,206,451	9,224,702
Trading	14,313	17,853
Non-marketable	116,190	115,832
Total investment securities	9,336,954	9,358,387
Short-term federal funds sold and securities purchased under agreements to resell	7,455	11,870
Long-term securities purchased under agreements to resell	850,000	850,000
Interest earning deposits with banks	92,544	39,853
Cash and due from banks	410,666	465,828
Land, buildings and equipment, net	350,897	360,146
Goodwill	125,585	125,585
Other intangible assets, net	6,381	7,714
Other assets	355,253	405,962
Total assets	\$20,742,991	\$20,649,367
LIABILITIES AND EQUITY		
Deposits:		
Non-interest bearing	\$5,637,373	\$5,377,549
Savings, interest checking and money market	8,983,090	8,933,941
Time open and C.D.'s of less than \$100,000	1,113,824	1,166,104
Time open and C.D.'s of \$100,000 and over	1,097,346	1,322,289
Total deposits	16,831,633	16,799,883
Federal funds purchased and securities sold under agreements to repurchase	1,305,745	1,256,081
Other borrowings	111,292	111,817
Other liabilities	263,552	311,225
Total liabilities	18,512,222	18,479,006
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 89,277,398 shares in 2012 and 2011	446,387	446,387
Capital surplus	1,033,523	1,042,065
Retained earnings	671,297	575,419

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Treasury stock of 1,581,929 shares in 2012 and 217,755 shares in 2011, at cost	(61,388) (8,362)
Accumulated other comprehensive income	136,732	110,538	
Total Commerce Bancshares, Inc. stockholders' equity	2,226,551	2,166,047	
Non-controlling interest	4,218	4,314	
Total equity	2,230,769	2,170,361	
Total liabilities and equity	\$20,742,991	\$20,649,367	

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	For the Three Months		For the Six Months	
	Ended June 30		Ended June 30	
	2012	2011	2012	2011
	(Unaudited)			
INTEREST INCOME				
Interest and fees on loans	\$ 112,252	\$ 116,769	\$ 224,008	\$ 235,146
Interest and fees on loans held for sale	88	309	193	607
Interest on investment securities	57,561	57,712	111,319	112,601
Interest on short-term federal funds sold and securities purchased under agreements to resell	29	22	46	32
Interest on long-term securities purchased under agreements to resell	4,582	3,165	8,857	5,327
Interest on deposits with banks	112	110	167	200
Total interest income	174,624	178,087	344,590	353,913
INTEREST EXPENSE				
Interest on deposits:				
Savings, interest checking and money market	4,634	6,372	9,715	13,272
Time open and C.D.'s of less than \$100,000	2,004	2,965	4,110	6,708
Time open and C.D.'s of \$100,000 and over	1,828	2,434	3,739	5,107
Interest on federal funds purchased and securities sold under agreements to repurchase	177	687	402	1,309
Interest on other borrowings	876	919	1,782	1,834
Total interest expense	9,519	13,377	19,748	28,230
Net interest income	165,105	164,710	324,842	325,683
Provision for loan losses	5,215	12,188	13,380	27,977
Net interest income after provision for loan losses	159,890	152,522	311,462	297,706
NON-INTEREST INCOME				
Bank card transaction fees	38,434	41,304	73,167	78,766
Trust fees	23,833	22,544	46,647	44,116
Deposit account charges and other fees	19,975	20,789	39,311	40,089
Capital market fees	5,010	4,979	11,881	9,699
Consumer brokerage services	2,576	2,880	5,102	5,543
Loan fees and sales	1,706	2,075	3,267	3,899
Other	9,282	6,773	16,024	15,138
Total non-interest income	100,816	101,344	195,399	197,250
INVESTMENT SECURITIES GAINS (LOSSES), NET				
Impairment (losses) reversals on debt securities	3	(2,119)	5,590	4,186
Noncredit-related losses (reversals) on securities not expected to be sold	(353)	1,469	(6,260)	(5,110)
Net impairment losses	(350)	(650)	(670)	(924)
Realized gains on sales and fair value adjustments	1,686	2,606	6,046	4,207
Investment securities gains, net	1,336	1,956	5,376	3,283
NON-INTEREST EXPENSE				
Salaries and employee benefits	87,511	84,223	177,054	171,615
Net occupancy	11,105	11,213	22,365	23,250
Equipment	4,999	5,702	10,188	11,279
Supplies and communication	5,667	5,692	11,280	11,224
Data processing and software	18,282	17,531	35,751	33,998

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Marketing	4,469	4,495	8,291	8,753
Deposit insurance	2,618	2,780	5,138	7,671
Visa litigation	5,690	—	5,690	(1,359)
Other	15,999	21,877	31,044	41,042
Total non-interest expense	156,340	153,513	306,801	307,473
Income before income taxes	105,702	102,309	205,436	190,766
Less income taxes	34,466	32,692	67,386	60,199
Net income	71,236	69,617	138,050	130,567
Less non-controlling interest expense	503	583	1,518	1,080
Net income attributable to Commerce Bancshares, Inc.	\$70,733	\$69,034	\$136,532	\$129,487
Net income per common share — basic	\$.80	\$.76	\$1.54	\$1.42
Net income per common share — diluted	\$.80	\$.75	\$1.54	\$1.41

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		For the Six Months	
	Ended June 30		Ended June 30	
	2012	2011	2012	2011
	(Unaudited)			
Net income	\$71,236	\$69,617	\$138,050	\$130,567
Other comprehensive income (loss):				
Available for sale debt securities for which a portion of an other-than-temporary impairment (OTTI) has been recorded in earnings:				
Unrealized holding gains (losses) subsequent to initial OTTI recognition	866	(812)	6,286	5,663
Income tax (expense) benefit	(329)	)309	(2,389)	)(2,152)
Net unrealized gains (losses) on OTTI securities	537	(503)	3,897	3,511
Other available for sale investment securities:				
Unrealized holding gains	28,526	35,540	34,845	25,135
Reclassification adjustment for gains included in net income	—	(1)	(342)	)(177)
Net unrealized gains on securities	28,526	35,539	34,503	24,958
Income tax expense	(10,840)	)(13,505)	(13,111)	)(9,484)
Net unrealized gains on other securities	17,686	22,034	21,392	15,474
Prepaid pension cost:				
Amortization of accumulated pension loss	730	540	1,460	1,080
Income tax expense	(277)	)(205)	(555)	)(410)
Pension loss amortization	453	335	905	670
Other comprehensive income	18,676	21,866	26,194	19,655
Comprehensive income	89,912	91,483	164,244	150,222
Non-controlling interest expense	(503)	)(583)	(1,518)	)(1,080)
Comprehensive income attributable to Commerce Bancshares, Inc	\$89,409	\$90,900	\$162,726	\$149,142

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Commerce Bancshares, Inc. Shareholders

(In thousands, except per share data)	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total
	(Unaudited)						
Balance January 1, 2012	\$446,387	\$1,042,065	\$575,419	\$(8,362)	\$110,538	\$4,314	\$2,170,361
Net income			136,532			1,518	138,050
Other comprehensive income					26,194		26,194
Distributions to non-controlling interest						(1,614)	(1,614)
Purchase of treasury stock				(71,652)			(71,652)
Issuance of stock under purchase and equity compensation plans		(3,491)		10,276			6,785
Net tax benefit related to equity compensation plans		744					744
Stock-based compensation		2,555					2,555
Issuance of nonvested stock awards		(8,350)		8,350			—
Cash dividends (\$.460 per share)			(40,654)				(40,654)
Balance June 30, 2012	\$446,387	\$1,033,523	\$671,297	\$(61,388)	\$136,732	\$4,218	\$2,230,769
Balance January 1, 2011	\$433,942	\$971,293	\$555,778	\$(2,371)	\$63,345	\$1,477	\$2,023,464
Net income			129,487			1,080	130,567
Other comprehensive income					19,655		19,655
Distributions to non-controlling interest						(358)	(358)
Purchase of treasury stock				(18,341)			(18,341)
Issuance of stock under purchase and equity compensation plans	1,563	5,483		6,317			13,363
Net tax benefit related to equity compensation plans		955					955
Stock-based compensation		2,372					2,372
Issuance of nonvested stock awards	976	(856)		(120)			—
Cash dividends (\$.438 per share)			(40,110)				(40,110)
Balance June 30, 2011	\$436,481	\$979,247	\$645,155	\$(14,515)	\$83,000	\$2,199	\$2,131,567

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 Six Months Ended	
	2012	2011
	(Unaudited)	
OPERATING ACTIVITIES:		
Net income	\$ 138,050	\$ 130,567
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	13,380	27,977
Provision for depreciation and amortization	21,847	23,732
Amortization of investment security premiums, net	16,862	2,413
Investment securities gains, net(A)	(5,376)	(3,283)
Net gains on sales of loans held for sale	(375)	(1,147)
Originations of loans held for sale	—	(28,631)
Proceeds from sales of loans held for sale	22,508	51,297
Net increase in trading securities	(4,006)	(374)
Stock-based compensation	2,555	2,372
(Increase) decrease in interest receivable	4,495	(1,095)
Decrease in interest payable	(185)	(2,686)
Increase in income taxes payable	1,999	5,594
Net tax benefit related to equity compensation plans	(744)	(955)
Other changes, net	(7,617)	(10,912)
Net cash provided by operating activities	203,393	194,869
INVESTING ACTIVITIES:		
Proceeds from sales of investment securities(A)	14,116	11,202
Proceeds from maturities/pay downs of investment securities(A)	1,479,062	1,400,631
Purchases of investment securities(A)	(1,477,434)	(1,809,501)
Net (increase) decrease in loans	(218,816)	139,927
Long-term securities purchased under agreements to resell	—	(500,000)
Repayments of long-term securities purchased under agreements to resell	—	100,000
Purchases of land, buildings and equipment	(11,703)	(11,133)
Sales of land, buildings and equipment	1,743	1,711
Net cash used in investing activities	(213,032)	(667,163)
FINANCING ACTIVITIES:		
Net increase in non-interest bearing, savings, interest checking and money market deposits	335,614	705,923
Net decrease in time open and C.D.'s	(277,223)	(62,335)
Net increase in short-term federal funds purchased and securities sold under agreements to repurchase	49,664	299,643
Repayment of long-term borrowings	(525)	(352)
Net increase in short-term borrowings	—	8
Purchases of treasury stock	(71,652)	(18,341)
Issuance of stock under stock purchase and equity compensation plans	6,785	13,363
Net tax benefit related to equity compensation plans	744	955
Cash dividends paid on common stock	(40,654)	(40,110)
Net cash provided by financing activities	2,753	898,754
Increase (decrease) in cash and cash equivalents	(6,886)	426,460
Cash and cash equivalents at beginning of year	517,551	460,675

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Cash and cash equivalents at June 30	\$510,665	\$887,135
(A) Available for sale and non-marketable securities		
Income tax payments, net	\$64,799	\$54,661
Interest paid on deposits and borrowings	\$19,933	\$30,916
Loans transferred to foreclosed real estate	\$5,488	\$18,343
See accompanying notes to consolidated financial statements.		

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Commerce Bancshares, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012 (Unaudited)

1. Principles of Consolidation and Presentation

The accompanying consolidated financial statements include the accounts of Commerce Bancshares, Inc. and all majority-owned subsidiaries (the Company). Most of the Company's operations are conducted by its subsidiary bank, Commerce Bank (the Bank). The consolidated financial statements in this report have not been audited. All significant intercompany accounts and transactions have been eliminated. Certain reclassifications were made to 2011 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 six month periods ended June 30, 2012 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 2011 Annual Report on Form 10-K.

2. Loans and Allowance for Loan Losses

Major classifications within the Company's held to maturity loan portfolio at June 30, 2012 and December 31, 2011 are as follows:

(In thousands)	June 30, 2012	December 31, 2011
Commercial:		
Business	\$2,993,067	\$2,808,265
Real estate – construction and land	346,048	386,598
Real estate – business	2,190,838	2,180,100
Personal Banking:		
Real estate – personal	1,501,170	1,428,777
Consumer	1,162,532	1,114,889
Revolving home equity	447,601	463,587
Consumer credit card	732,388	788,701
Overdrafts	3,271	6,561
Total loans	\$9,376,915	\$9,177,478

At June 30, 2012, loans of \$3.1 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 \$1.2 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 six months ended June 30, 2012 follows:

(In thousands)	For the Three Months Ended June 30			For the Six Months Ended June 30		
	Commercial	Personal Banking	Total	Commercial	Personal Banking	Total
Balance at beginning of period	\$ 117,474	\$ 64,058	\$ 181,532	\$ 122,497	\$ 62,035	\$ 184,532

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Provision	(4,448)9,663	5,215	(7,646)21,026	13,380
Deductions:						
Loans charged off	3,179	13,841	17,020	5,707	27,230	32,937
Less recoveries on loans	4,824	3,982	8,806	5,527	8,031	13,558
Net loans charged off	(1,645)9,859	8,214	180	19,199	19,379
Balance June 30, 2012	\$114,671	\$63,862	\$178,533	\$114,671	\$63,862	\$178,533

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A summary of the activity in the allowance for loan losses during the three and six months ended June 30, 2011 follows:

(In thousands)	For the Three Months Ended June 30			For the Six Months Ended June 30		
	Commercial	Personal Banking	Total	Commercial	Personal Banking	Total
Balance at beginning of period	\$ 128,351	\$ 66,187	\$ 194,538	\$ 119,946	\$ 77,592	\$ 197,538
Provision	1,815	10,373	12,188	15,280	12,697	27,977
Deductions:						
Loans charged off	3,946	15,656	19,602	10,310	32,681	42,991
Less recoveries on loans	1,043	3,371	4,414	2,347	6,667	9,014
Net loans charged off	2,903	12,285	15,188	7,963	26,014	33,977
Balance June 30, 2011	\$ 127,263	\$ 64,275	\$ 191,538	\$ 127,263	\$ 64,275	\$ 191,538

The following table shows the balance in the allowance for loan losses and the related loan balance at June 30, 2012 and December 31, 2011, disaggregated on the basis of impairment methodology. Impaired loans evaluated under ASC 310-10-35 include loans on non-accrual status, which are individually evaluated for impairment, and other impaired loans discussed below, which are deemed to have similar risk characteristics and are collectively evaluated. All other loans are collectively evaluated for impairment under ASC 450-20.

(In thousands)	Impaired Loans		All Other Loans	
	Allowance for Loan Losses	Outstanding	Allowance for Loan Losses	Outstanding
June 30, 2012				
Commercial	\$ 6,624	\$ 108,916	\$ 108,047	\$ 5,421,037
Personal Banking	2,046	26,979	61,816	3,819,983
Total	\$ 8,670	\$ 135,895	\$ 169,863	\$ 9,241,020
December 31, 2011				
Commercial	\$ 6,668	\$ 108,167	\$ 115,829	\$ 5,266,796
Personal Banking	4,090	31,088	57,945	3,771,427
Total	\$ 10,758	\$ 139,255	\$ 173,774	\$ 9,038,223

Impaired loans

The table below shows the Company's investment in impaired loans at June 30, 2012 and December 31, 2011. 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. They are largely comprised of certain business, construction and business real estate loans classified as substandard. Upon maturity, the loans renewed at interest rates that were judged not to be market rates for new debt with similar risk, and as a result were classified as troubled debt restructurings. These loans totaled \$57.2 million at June 30, 2012 and \$41.3 million at December 31, 2011. 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. Restructured loans also include certain credit card loans under various debt management and assistance programs, which totaled \$16.5 million at June 30, 2012 and \$22.4 million at December 31, 2011.

(In thousands)	June 30, 2012	Dec. 31, 2011
Non-accrual loans	\$62,177	\$75,482
Restructured loans (accruing)	73,718	63,773
Total impaired loans	\$135,895	\$139,255

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The following table provides additional information about impaired loans held by the Company at June 30, 2012 and December 31, 2011, 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
June 30, 2012			
With no related allowance recorded:			
Business	\$9,704	\$11,756	\$—
Real estate – construction and land	10,796	18,841	—
Real estate – business	11,642	15,558	—
Real estate – personal	750	773	—
Revolving home equity	511	843	—
	\$33,403	\$47,771	\$—
With an allowance recorded:			
Business	\$28,453	\$31,912	\$2,488
Real estate – construction and land	29,191	44,523	2,664
Real estate – business	19,130	24,226	1,472
Real estate – personal	7,551	10,701	673
Consumer	1,559	1,599	42
Revolving home equity	118	367	4
Consumer credit card	16,490	16,490	1,327
	\$102,492	\$129,818	\$8,670
Total	\$135,895	\$177,589	\$8,670
December 31, 2011			
With no related allowance recorded:			
Business	\$19,759	\$22,497	\$—
Real estate – construction and land	8,391	22,746	—
Real estate – business	6,853	9,312	—
Real estate – personal	793	793	—
	\$35,796	\$55,348	\$—
With an allowance recorded:			
Business	\$15,604	\$19,286	\$1,500
Real estate – construction and land	37,387	47,516	2,580
Real estate – business	20,173	24,799	2,588
Real estate – personal	7,867	10,671	795
Consumer credit card	22,428	22,428	3,295
	\$103,459	\$124,700	\$10,758
Total	\$139,255	\$180,048	\$10,758

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Total average impaired loans for the three and six month periods ending June 30, 2012 and 2011, respectively, are shown in the table below.

(In thousands)	Commercial	Personal Banking	Total
Average Impaired Loans:			
For the Three Months Ended June 30, 2012			
Non-accrual loans	\$58,662	\$7,165	\$65,827
Restructured loans (accruing)	50,102	20,324	70,426
Total	\$108,764	\$27,489	\$136,253
For the Six Months Ended June 30, 2012			
Non-accrual loans	\$63,113	\$7,287	\$70,400
Restructured loans (accruing)	45,164	21,939	67,103
Total	\$108,277	\$29,226	\$137,503
For the Three Months Ended June 30, 2011			
Non-accrual loans	\$69,104	\$7,063	\$76,167
Restructured loans (accruing)	46,037	21,679	67,716
Total	\$115,141	\$28,742	\$143,883
For the Six Months ended June 30, 2011			
Non-accrual loans	\$72,186	\$7,045	\$79,231
Restructured loans (accruing)	44,495	21,107	65,602
Total	\$116,681	\$28,152	\$144,833

The table below shows interest income recognized during the three and six month periods ending June 30, 2012 and 2011 for impaired loans held at the end of each respective period. This interest relates to accruing restructured loans, as discussed above.

(In thousands)	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2012	2011	2012	2011
Interest income recognized on impaired loans:				
Business	\$236	\$85	\$471	\$170
Real estate – construction and land	249	186	498	373
Real estate – business	105	204	210	407
Real estate – personal	9	7	17	14
Consumer	19	—	38	—
Revolving home equity	1	—	1	—
Consumer credit card	321	447	642	894
Total	\$940	\$929	\$1,877	\$1,858

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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 June 30, 2012 and December 31, 2011.

(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
June 30, 2012					
Commercial:					
Business	\$2,972,009	\$6,416	\$519	\$ 14,123	\$2,993,067
Real estate – construction and land	326,022	1,828	—	18,198	346,048
Real estate – business	2,168,201	1,083	—	21,554	2,190,838
Personal Banking:					
Real estate – personal	1,481,713	10,106	1,735	7,616	1,501,170
Consumer	1,151,696	9,280	1,425	131	1,162,532
Revolving home equity	445,096	1,270	680	555	447,601
Consumer credit card	716,799	8,651	6,938	—	732,388
Overdrafts	2,839	432	—	—	3,271
Total	\$9,264,375	\$39,066	\$11,297	\$ 62,177	\$9,376,915
December 31, 2011					
Commercial:					
Business	\$2,777,578	\$4,368	\$595	\$ 25,724	\$2,808,265
Real estate – construction and land	362,592	1,113	121	22,772	386,598
Real estate – business	2,151,822	8,875	29	19,374	2,180,100
Personal Banking:					
Real estate – personal	1,406,449	11,671	3,045	7,612	1,428,777
Consumer	1,096,742	15,917	2,230	—	1,114,889
Revolving home equity	461,941	1,003	643	—	463,587
Consumer credit card	769,922	10,484	8,295	—	788,701
Overdrafts	6,173	388	—	—	6,561
Total	\$9,033,219	\$53,819	\$14,958	\$ 75,482	\$9,177,478

Credit quality

The following table provides information about the credit quality of the Commercial loan portfolio, using the Company's internal rating system as an indicator. The internal rating system is a series of grades reflecting management's risk assessment, based on its analysis of the borrower's financial condition. The "pass" category consists of a range of loan grades that reflect increasing, though still acceptable, risk. Movement of risk through the various grade levels in the "pass" category is monitored for early identification of credit deterioration. The "special mention" rating is attached to loans where the borrower exhibits 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
June 30, 2012				
Pass	\$2,857,378	\$ 278,895	\$2,038,169	\$5,174,442
Special mention	65,052	5,739	49,057	119,848
Substandard	56,514	43,216	82,058	181,788
Non-accrual	14,123	18,198	21,554	53,875
Total	\$2,993,067	\$ 346,048	\$2,190,838	\$5,529,953
December 31, 2011				
Pass	\$2,669,868	\$ 304,408	\$1,994,391	