

ZIONS BANCORPORATION /UT/  
Form 10-Q  
August 08, 2012  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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 NUMBER 001-12307

ZIONS BANCORPORATION

(Exact name of registrant as specified in its charter)

UTAH 87-0227400  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

ONE SOUTH MAIN, 15<sup>TH</sup> FLOOR 84133  
SALT LAKE CITY, UTAH (Zip Code)  
(Address of principal executive offices)

Registrant's telephone number, including area code: (801) 524-4787

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.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, without par value, outstanding at July 31, 2012 184,148,177 shares



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PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS (Unaudited)  
ZIONS BANCORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

| (In thousands, except share amounts)  | June 30,<br>2012<br>(Unaudited) | December 31,<br>2011 |
|---|---------------------------------|----------------------|
| <b>ASSETS</b>   |                                 |                      |
| Cash and due from banks   | \$1,124,673                     | \$1,224,350          |
| Money market investments:   |                                 |                      |
| Interest-bearing deposits   | 7,887,175                       | 7,020,895            |
| Federal funds sold and security resell agreements                                   | 83,529                          | 102,159              |
| Investment securities:  |                                 |                      |
| Held-to-maturity, at adjusted cost (approximate fair value \$715,710 and \$729,974) | 773,016                         | 807,804              |
| Available-for-sale, at fair value   | 3,167,590                       | 3,230,795            |
| Trading account, at fair value  | 20,539                          | 40,273               |
|   | 3,961,145                       | 4,078,872            |
| Loans held for sale   | 139,245                         | 201,590              |
| Loans, net of unearned income and fees:   |                                 |                      |
| Loans and leases  | 36,231,104                      | 36,393,782           |
| FDIC-supported loans  | 642,246                         | 750,870              |
|   | 36,873,350                      | 37,144,652           |
| Less allowance for loan losses  | 971,716                         | 1,049,958            |
| Loans, net of allowance   | 35,901,634                      | 36,094,694           |
| Other noninterest-bearing investments   | 867,882                         | 865,231              |
| Premises and equipment, net   | 714,913                         | 719,276              |
| Goodwill  | 1,015,129                       | 1,015,129            |
| Core deposit and other intangibles  | 59,277                          | 67,830               |
| Other real estate owned   | 144,816                         | 153,178              |
| Other assets  | 1,507,594                       | 1,605,905            |
|   | \$53,407,012                    | \$53,149,109         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                                 |                      |
| Deposits:   |                                 |                      |
| Noninterest-bearing demand  | \$16,498,248                    | \$16,110,857         |
| Interest-bearing:   |                                 |                      |
| Savings and NOW   | 7,505,841                       | 7,159,101            |
| Money market  | 14,439,389                      | 14,616,740           |
| Time  | 3,211,942                       | 3,413,550            |
| Foreign   | 1,504,827                       | 1,575,361            |
|   | 43,160,247                      | 42,875,609           |
| Securities sold, not yet purchased  | 104,882                         | 44,486               |
| Federal funds purchased and security repurchase agreements                          | 759,591                         | 608,098              |
| Other short-term borrowings   | 7,621                           | 70,273               |
| Long-term debt  | 2,274,571                       | 1,954,462            |
| Reserve for unfunded lending commitments  | 103,586                         | 102,422              |
| Other liabilities   | 507,151                         | 510,531              |
| Total liabilities   | 46,917,649                      | 46,165,881           |
| Shareholders' equity:   |                                 |                      |
| Preferred stock, without par value, authorized 4,400,000 shares                     | 1,800,473                       | 2,377,560            |

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|   |              |              |
|---|--------------|--------------|
| Common stock, without par value; authorized 350,000,000 shares; issued and outstanding 184,117,522 and 184,135,388 shares | 4,157,525    | 4,163,242    |
| Retained earnings   | 1,110,120    | 1,036,590    |
| Accumulated other comprehensive income (loss)   | (576,147     | ) (592,084 ) |
| Controlling interest shareholders' equity   | 6,491,971    | 6,985,308    |
| Noncontrolling interests  | (2,608       | ) (2,080 )   |
| Total shareholders' equity  | 6,489,363    | 6,983,228    |
|   | \$53,407,012 | \$53,149,109 |

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

| (In thousands, except per share amounts)   | Three Months Ended |           | Six Months Ended |             |
|--|--------------------|-----------|------------------|-------------|
|  | June 30,<br>2012   | 2011      | June 30,<br>2012 | 2011        |
| Interest income:   |                    |           |                  |             |
| Interest and fees on loans   | \$478,569          | \$523,741 | \$965,184        | \$1,041,898 |
| Interest on money market investments   | 5,099              | 3,199     | 9,727            | 6,042       |
| Interest on securities:  |                    |           |                  |             |
| Held-to-maturity   | 9,325              | 9,009     | 18,284           | 17,673      |
| Available-for-sale   | 25,090             | 22,179    | 48,248           | 44,455      |
| Trading account  | 148                | 538       | 486              | 990         |
| Total interest income  | 518,231            | 558,666   | 1,041,929        | 1,111,058   |
| Interest expense:  |                    |           |                  |             |
| Interest on deposits   | 20,823             | 34,257    | 44,236           | 70,741      |
| Interest on short-term borrowings  | 256                | 1,783     | 1,035            | 3,963       |
| Interest on long-term debt   | 65,165             | 106,454   | 122,372          | 196,326     |
| Total interest expense   | 86,244             | 142,494   | 167,643          | 271,030     |
| Net interest income  | 431,987            | 416,172   | 874,286          | 840,028     |
| Provision for loan losses  | 10,853             | 1,330     | 26,517           | 61,330      |
| Net interest income after provision for loan losses  | 421,134            | 414,842   | 847,769          | 778,698     |
| Noninterest income:  |                    |           |                  |             |
| Service charges and fees on deposit accounts   | 43,426             | 42,878    | 86,958           | 87,408      |
| Other service charges, commissions and fees  | 38,554             | 43,958    | 72,780           | 85,643      |
| Trust and wealth management income   | 8,057              | 7,179     | 14,431           | 13,933      |
| Capital markets and foreign exchange   | 7,342              | 8,358     | 13,076           | 15,572      |
| Dividends and other investment income  | 21,542             | 17,239    | 31,022           | 25,267      |
| Loan sales and servicing income  | 10,287             | 9,836     | 18,639           | 15,849      |
| Fair value and nonhedge derivative income (loss)   | (6,784)            | ) 4,195   | (11,184)         | ) 5,415     |
| Equity securities gains (losses), net  | 107                | (1,636)   | ) 9,252          | (739)       |
| Fixed income securities gains (losses), net  | 5,519              | (2,396)   | ) 6,239          | (2,455)     |
| Impairment losses on investment securities:  |                    |           |                  |             |
| Impairment losses on investment securities   | (24,026)           | ) (6,339) | ) (42,299)       | ) (9,444)   |
| Noncredit-related losses on securities not expected to be sold<br>(recognized in other comprehensive income) | 16,718             | 1,181     | 24,782           | 1,181       |
| Net impairment losses on investment securities   | (7,308)            | ) (5,158) | ) (17,517)       | ) (8,263)   |
| Other  | 2,280              | 3,896     | 6,325            | 24,862      |
| Total noninterest income   | 123,022            | 128,349   | 230,021          | 262,492     |
| Noninterest expense:   |                    |           |                  |             |
| Salaries and employee benefits   | 220,765            | 222,138   | 445,399          | 437,148     |
| Occupancy, net   | 28,169             | 27,588    | 56,120           | 55,598      |
| Furniture and equipment  | 27,302             | 26,153    | 54,094           | 51,815      |
| Other real estate expense  | 6,440              | 17,903    | 14,250           | 42,070      |
| Credit-related expense   | 12,415             | 17,124    | 25,900           | 32,037      |
| Provision for unfunded lending commitments   | 4,868              | (1,904)   | ) 1,164          | (11,444)    |
| Legal and professional services  | 12,947             | 8,432     | 24,043           | 15,121      |
| Advertising  | 6,618              | 5,962     | 12,425           | 12,873      |

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|   |           |           |            |           |
|---|-----------|-----------|------------|-----------|
| FDIC premiums   | 10,444    | 15,232    | 21,363     | 39,333    |
| Amortization of core deposit and other intangibles            | 4,262     | 4,855     | 8,553      | 10,556    |
| Other   | 67,426    | 72,773    | 130,717    | 139,524   |
| Total noninterest expense                                     | 401,656   | 416,256   | 794,028    | 824,631   |
| Income before income taxes                                    | 142,500   | 126,935   | 283,762    | 216,559   |
| Income taxes  | 51,036    | 54,325    | 102,895    | 91,358    |
| Net income  | 91,464    | 72,610    | 180,867    | 125,201   |
| Net loss applicable to noncontrolling interests               | (273 )    | (265 )    | (546 )     | (491 )    |
| Net income applicable to controlling interest                 | 91,737    | 72,875    | 181,413    | 125,692   |
| Preferred stock dividends                                     | (36,522 ) | (43,837 ) | (100,709 ) | (81,887 ) |
| Net earnings applicable to common shareholders                | \$55,215  | \$29,038  | \$80,704   | \$43,805  |
| Weighted average common shares outstanding during the period: |           |           |            |           |
| Basic shares  | 182,985   | 182,472   | 182,892    | 182,092   |
| Diluted shares  | 183,137   | 182,728   | 183,050    | 182,365   |
| Net earnings per common share:                                |           |           |            |           |
| Basic   | \$0.30    | \$0.16    | \$0.44     | \$0.24    |
| Diluted   | 0.30      | 0.16      | 0.44       | 0.24      |
| See accompanying notes to consolidated financial statements.  |           |           |            |           |

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ZIONS BANCORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

| (In thousands)   | Three Months Ended |           | Six Months Ended |            |
|--|--------------------|-----------|------------------|------------|
|  | June 30,<br>2012   | 2011      | June 30,<br>2012 | 2011       |
| Net income   | \$91,464           | \$72,610  | \$180,867        | \$125,201  |
| Other comprehensive income (loss), net of tax:   |                    |           |                  |            |
| Net realized and unrealized holding gains (losses) on investments                        | 6,431              | (4,272)   | ) 29,045         | (36,060)   |
| Reclassification for net losses on investments included in earnings                      | 821                | 4,636     | 6,619            | 6,590      |
| Noncredit-related impairment losses on securities not expected to be sold                | (10,323)           | ) (729)   | ) (15,303)       | ) (729)    |
| Accretion of securities with noncredit-related impairment losses not expected to be sold | 367                | 73        | 532              | 99         |
| Net unrealized losses on derivative instruments  | (1,876)            | ) (5,036) | ) (4,956)        | ) (13,095) |
| Other comprehensive income (loss)  | (4,580)            | ) (5,328) | ) 15,937         | (43,195)   |
| Comprehensive income   | 86,884             | 67,282    | 196,804          | 82,006     |
| Comprehensive loss applicable to noncontrolling interests                                | (273)              | ) (265)   | ) (546)          | ) (491)    |
| Comprehensive income applicable to controlling interest                                  | \$87,157           | \$67,547  | \$197,350        | \$82,497   |
| See accompanying notes to consolidated financial statements.                             |                    |           |                  |            |



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ZIONS BANCORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(Unaudited)

| (In thousands, except share<br>and per share amounts)            | Preferred<br>stock | Common stock |             | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Noncontrolling<br>interests | Total<br>shareholders'<br>equity |
|--|--------------------|--------------|-------------|----------------------|---|-----------------------------|----------------------------------|
|  |                    | Shares       | Amount      |                      |   |                             |                                  |
| Balance at December 31,<br>2011                                  | \$2,377,560        | 184,135,388  | \$4,163,242 | \$1,036,590          | \$(592,084)   | \$(2,080)                   | \$6,983,228                      |
| Net income (loss) for the<br>period                              |                    |              |             | 181,413              |   | (546 )                      | 180,867                          |
| Other comprehensive<br>income                                    |                    |              |             |                      | 15,937  |                             | 15,937                           |
| Issuance of preferred stock<br>143,750                           |                    |              | (2,408 )    |                      |   |                             | 141,342                          |
| Preferred stock redemption<br>(842,500 )                         |                    |              | 3,830       | (3,830 )             |   |                             | (842,500 )                       |
| Subordinated debt<br>converted to preferred<br>stock             | 93,568             |              | (13,602 )   |                      |   |                             | 79,966                           |
| Net activity under<br>employee plans and related<br>tax benefits |                    | (17,866 )    | 6,463       |                      |   |                             | 6,463                            |
| Dividends on preferred<br>stock                                  | 28,095             |              |             | (100,709 )           |   |                             | (72,614 )                        |
| Dividends on common<br>stock, \$0.02 per share                   |                    |              |             | (3,704 )             |   |                             | (3,704 )                         |
| Change in deferred<br>compensation                               |                    |              |             | 360                  |   |                             | 360                              |
| Other changes in<br>noncontrolling interests                     |                    |              |             |                      |   | 18                          | 18                               |
| Balance at June 30, 2012   | \$1,800,473        | 184,117,522  | \$4,157,525 | \$1,110,120          | \$(576,147)   | \$(2,608)                   | \$6,489,363                      |
| Balance at December 31,<br>2010                                  | \$2,056,672        | 182,784,086  | \$4,163,619 | \$889,284            | \$(461,296)   | \$(1,065)                   | \$6,647,214                      |
| Net income (loss) for the<br>period                              |                    |              |             | 125,692              |   | (491 )                      | 125,201                          |
| Other comprehensive loss   |                    |              |             |                      | (43,195 )   |                             | (43,195 )                        |
| Subordinated debt<br>converted to preferred<br>stock             | 262,062            |              | (37,744 )   |                      |   |                             | 224,318                          |
| Issuance of common stock   |                    | 1,067,540    | 25,048      |                      |   |                             | 25,048                           |
| Net activity under<br>employee plans and related<br>tax benefits |                    | 459,664      | 7,446       |                      |   |                             | 7,446                            |
| Dividends on preferred<br>stock                                  | 10,636             |              |             | (81,887 )            |   |                             | (71,251 )                        |
|  |                    |              |             | (3,653 )             |   |                             | (3,653 )                         |

|  |             |             |             |           |             |           |  |             |
|--|-------------|-------------|-------------|-----------|-------------|-----------|--|-------------|
| Dividends on common stock, \$0.02 per share                  |             |             |             |           |             |           |  |             |
| Change in deferred compensation                              |             |             |             | 1,909     |             |           |  | 1,909       |
| Other changes in noncontrolling interests                    |             |             |             |           |             | 54        |  | 54          |
| Balance at June 30, 2011                                     | \$2,329,370 | 184,311,290 | \$4,158,369 | \$931,345 | \$(504,491) | \$(1,502) |  | \$6,913,091 |
| See accompanying notes to consolidated financial statements. |             |             |             |           |             |           |  |             |

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ZIONS BANCORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

| (In thousands)  | Three Months Ended |             | Six Months Ended |             |
|---|--------------------|-------------|------------------|-------------|
|   | June 30,           |             | June 30,         |             |
|   | 2012               | 2011        | 2012             | 2011        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                    |             |                  |             |
| Net income for the period   | \$91,464           | \$72,610    | \$180,867        | \$125,201   |
| Adjustments to reconcile net income to net cash provided by operating activities:         |                    |             |                  |             |
| Net impairment losses on investment securities  | 7,308              | 5,158       | 17,517           | 8,263       |
| Provision for credit losses   | 15,721             | (574)       | ) 27,681         | 49,886      |
| Depreciation and amortization   | 62,166             | 105,790     | 119,309          | 195,596     |
| Deferred income tax expense (benefit)   | (630)              | ) 33,913    | 19,055           | 87,703      |
| Net increase (decrease) in trading securities   | (1,506)            | ) 5,397     | 19,734           | (2,485)     |
| Net decrease in loans held for sale   | 50,464             | 41,041      | 71,377           | 69,512      |
| Net write-downs of and losses from sales of other real estate owned                       | 5,509              | 14,363      | 13,341           | 34,113      |
| Change in other liabilities   | (11,731)           | ) 29,928    | (30,530)         | ) (6,896)   |
| Change in other assets  | 38,398             | 41,334      | 88,823           | 59,488      |
| Other, net  | 3,544              | (2,734)     | ) (18,372)       | ) (4,934)   |
| Net cash provided by operating activities   | 260,707            | 346,226     | 508,802          | 615,447     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                    |             |                  |             |
| Net increase in money market investments  | (288,671)          | ) (291,604) | ) (847,650)      | ) (341,811) |
| Proceeds from maturities and paydowns of investment securities held-to-maturity           | 34,106             | 12,923      | 54,685           | 42,031      |
| Purchases of investment securities held-to-maturity                                       | (24,461)           | ) (21,316)  | ) (33,738)       | ) (26,809)  |
| Proceeds from sales, maturities, and paydowns of investment securities available-for-sale | 235,192            | 277,419     | 676,174          | 579,669     |
| Purchases of investment securities available-for-sale                                     | (187,627)          | ) (238,577) | ) (593,930)      | ) (518,463) |
| Proceeds from sales of loans and leases   | 13,478             | 16,182      | 39,787           | 17,264      |
| Net loan and lease collections (originations)   | (397,181)          | ) (492,134) | ) 18,230         | (536,945)   |
| Net decrease in other noninterest-bearing investments                                     | 6,445              | 5,522       | 12,174           | 10,318      |
| Net purchases of premises and equipment   | (17,655)           | ) (19,295)  | ) (32,817)       | ) (39,480)  |
| Proceeds from sales of other real estate owned  | 58,485             | 95,036      | 97,884           | 186,877     |
| Net cash paid for sale of branch  | —                  | —           | (22,568)         | ) —         |
| Net cash used in investing activities   | (567,889)          | ) (655,844) | ) (631,769)      | ) (627,349) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                    |             |                  |             |
| Net increase in deposits  | 61,160             | 598,817     | 313,997          | 256,275     |
| Net change in short-term funds borrowed   | 318,039            | (190,675)   | ) 149,208        | (110,583)   |
| Proceeds from issuance of long-term debt  | 266,636            | 30,250      | 599,386          | 30,250      |
| Repayments of long-term debt  | (255,038)          | ) (175)     | ) (255,179)      | ) (331)     |
| Cash paid for preferred stock redemption  | (142,500)          | ) —         | (842,500)        | ) —         |
| Proceeds from issuance of common stock and preferred stock                                | 141,661            | 195         | 142,003          | 25,407      |
| Dividends paid on common and preferred stock  | (35,522)           | ) (40,303)  | ) (76,318)       | ) (74,904)  |

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|  |             |             |             |             |   |
|--|-------------|-------------|-------------|-------------|---|
| Other, net   | (4,767      | ) (2,603    | ) (7,307    | ) (3,310    | ) |
| Net cash provided by financing activities                    | 349,669     | 395,506     | 23,290      | 122,804     |   |
| Net increase (decrease) in cash and due from banks           | 42,487      | 85,888      | (99,677     | ) 110,902   |   |
| Cash and due from banks at beginning of period               | 1,082,186   | 949,140     | 1,224,350   | 924,126     |   |
| Cash and due from banks at end of period                     | \$1,124,673 | \$1,035,028 | \$1,124,673 | \$1,035,028 |   |
| Cash paid for interest                                       | \$44,539    | \$51,039    | \$107,328   | \$142,320   |   |
| Net cash paid (refund received) for income taxes             | 9,771       | 536         | (11,897     | ) 428       |   |
| See accompanying notes to consolidated financial statements. |             |             |             |             |   |

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ZIONS BANCORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

June 30, 2012

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Zions Bancorporation (“the Parent”) and its majority-owned subsidiaries (collectively “the Company,” “Zions,” “we,” “our,” “us”) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. References to GAAP as promulgated by the Financial Accounting Standards Board (“FASB”) are made according to sections of the Accounting Standards Codification (“ASC”) and to Accounting Standards Updates (“ASU”). Certain prior period amounts have been reclassified to conform to the current period presentation.

Operating results for the three and six months ended June 30, 2012 and 2011 are not necessarily indicative of the results that may be expected in future periods. The consolidated balance sheet at December 31, 2011 is from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s 2011 Annual Report on Form 10-K.

The Company provides a full range of banking and related services through banking subsidiaries in ten Western and Southwestern states as follows: Zions First National Bank (“Zions Bank”), in Utah and Idaho; California Bank & Trust (“CB&T”); Amegy Corporation (“Amegy”) and its subsidiary, Amegy Bank, in Texas; National Bank of Arizona (“NBA”); Nevada State Bank (“NSB”); Vectra Bank Colorado (“Vectra”), in Colorado and New Mexico; The Commerce Bank of Washington (“TCBW”); and The Commerce Bank of Oregon (“TCBO”). The Parent also owns and operates certain nonbank subsidiaries that engage in wealth management and other financial related services.

2. CERTAIN RECENT ACCOUNTING PRONOUNCEMENTS

In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities. This new guidance under ASC 210, Balance Sheet, provides convergence to International Financial Reporting Standards (“IFRS”) to provide common disclosure requirements for the offsetting of financial instruments. Existing GAAP guidance allowing balance sheet offsetting, including industry-specific guidance, remains unchanged. The new guidance is effective on a retrospective basis, including all prior periods presented, for interim and annual periods beginning on or after January 1, 2013. Management is currently evaluating the impact this new guidance may have on the disclosures in the Company’s financial statements.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. This new accounting guidance under ASC 220, Comprehensive Income, provides convergence to IFRS and no longer allows presentation of the components of other comprehensive income (“OCI”) in the statement of changes in shareholders’ equity. We adopted this new guidance effective January 1, 2012 as required and elected to present the components of OCI in a separate statement consecutive to the statement of income. There was otherwise no effect on the accompanying financial statements.

In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. This ASU under ASC 220 defers the requirements of ASU 2011-05 to display reclassification adjustments for each component of OCI in both the statement of income and the statement of comprehensive income and to present the components of OCI in interim financial statements. During 2012, the FASB has indicated it will reconsider the reclassification requirements and the timing of their implementation. Management is currently

evaluating the impact this ASU will have on the disclosures in the Company's financial statements. In April 2011, the FASB issued ASU 2011-03, Reconsideration of Effective Control for Repurchase Agreements. The primary feature of this new accounting guidance under ASC 860, Transfers and Servicing, relates to the criteria that determine whether a sale or a secured borrowing occurred based on the transferor's maintenance of effective control over the transferred financial assets. The new guidance focuses on the transferor's contractual rights and obligations with respect to the transferred financial assets and not on the transferor's ability to perform under those rights and obligations. Accordingly, the collateral maintenance

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## ZIONS BANCORPORATION AND SUBSIDIARIES

requirement is eliminated by ASU 2011-3 from the assessment of effective control. We adopted this new guidance effective January 1, 2012 as required. There was no material effect on the accompanying financial statements. Additional recent accounting pronouncements are discussed where applicable in the Notes to Consolidated Financial Statements.

## 3. SUPPLEMENTAL CASH FLOW INFORMATION

Noncash activities are summarized as follows:

| (In thousands)  | Three Months Ended |          | Six Months Ended |           |
|---|--------------------|----------|------------------|-----------|
|   | June 30,<br>2012   | 2011     | June 30,<br>2012 | 2011      |
| Loans transferred to other real estate owned  | \$51,724           | \$85,129 | \$104,299        | \$174,658 |
| Beneficial conversion feature transferred from common stock to preferred stock as a result of subordinated debt conversions | 8,537              | 23,139   | 13,602           | 37,744    |
| Subordinated debt converted to preferred stock  | 50,192             | 138,469  | 79,966           | 224,318   |

## 4. INVESTMENT SECURITIES

Investment securities are summarized as follows:

| (In thousands)                                       | June 30, 2012  |  |                         |                | Not recognized in OCI  |                         |                      |
|--|----------------|--|-------------------------|----------------|------------------------|-------------------------|----------------------|
|  | Amortized cost | Recognized in OCI <sup>1</sup><br>Gross unrealized gains | Gross unrealized losses | Carrying value | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| Held-to-maturity                                     |                |  |                         |                |                        |                         |                      |
| Municipal securities                                 | \$543,367      | \$—  | \$—                     | \$543,367      | \$14,780               | \$435                   | \$557,712            |
| Asset-backed securities:                             |                |  |                         |                |                        |                         |                      |
| Trust preferred securities – banks and insurance     | 262,511        | —  | 53,472                  | 209,039        | 282                    | 63,637                  | 145,684              |
| Other  | 23,383         | —  | 2,873                   | 20,510         | 246                    | 8,542                   | 12,214               |
| Other debt securities                                | 100            | —  | —                       | 100            | —                      | —                       | 100                  |
|  | \$829,361      | \$—  | \$56,345                | \$773,016      | \$15,308               | \$72,614                | \$715,710            |
| Available-for-sale                                   |                |  |                         |                |                        |                         |                      |
| U.S. Treasury securities                             | \$4,379        | \$259  | \$—                     | \$4,638        |                        |                         | \$4,638              |
| U.S. Government agencies and corporations:           |                |  |                         |                |                        |                         |                      |
| Agency securities                                    | 138,364        | 5,298  | 138                     | 143,524        |                        |                         | 143,524              |
| Agency guaranteed mortgage-backed securities         | 476,200        | 20,463   | 50                      | 496,613        |                        |                         | 496,613              |
| Small Business Administration loan-backed securities | 1,179,718      | 18,481   | 1,960                   | 1,196,239      |                        |                         | 1,196,239            |
| Municipal securities                                 | 118,189        | 3,273  | 2,385                   | 119,077        |                        |                         | 119,077              |
| Asset-backed securities:                             |                |  |                         |                |                        |                         |                      |
|  | 1,757,601      | 13,052   | 844,019                 | 926,634        |                        |                         | 926,634              |

|   |             |          |           |             |             |
|---|-------------|----------|-----------|-------------|-------------|
| Trust preferred securities – banks<br>and insurance           |             |          |           |             |             |
| Trust preferred securities – real<br>estate investment trusts | 40,361      | —        | 25,930    | 14,431      | 14,431      |
| Auction rate securities                                       | 7,149       | 94       | 77        | 7,166       | 7,166       |
| Other   | 54,795      | 932      | 9,435     | 46,292      | 46,292      |
|   | 3,776,756   | 61,852   | 883,994   | 2,954,614   | 2,954,614   |
| Mutual funds and other  | 212,792     | 202      | 18        | 212,976     | 212,976     |
|   | \$3,989,548 | \$62,054 | \$884,012 | \$3,167,590 | \$3,167,590 |



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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)   | December 31, 2011 |                        |                         |                | Not recognized in OCI  |                         |                      |
|--|-------------------|------------------------|-------------------------|----------------|------------------------|-------------------------|----------------------|
|  | Amortized cost    | Gross unrealized gains | Gross unrealized losses | Carrying value | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| Held-to-maturity   |                   |                        |                         |                |                        |                         |                      |
| Municipal securities                                       | \$564,468         | \$—                    | \$—                     | \$564,468      | \$8,807                | \$1,083                 | \$572,192            |
| Asset-backed securities:                                   |                   |                        |                         |                |                        |                         |                      |
| Trust preferred securities – banks and insurance           | 262,853           | —                      | 40,546                  | 222,307        | 207                    | 78,191                  | 144,323              |
| Other  | 24,310            | —                      | 3,381                   | 20,929         | 303                    | 7,868                   | 13,364               |
| Other debt securities                                      | 100               | —                      | —                       | 100            | —                      | 5                       | 95                   |
|  | \$851,731         | \$—                    | \$43,927                | \$807,804      | \$9,317                | \$87,147                | \$729,974            |
| Available-for-sale   |                   |                        |                         |                |                        |                         |                      |
| U.S. Treasury securities                                   | \$4,330           | \$304                  | \$—                     | \$4,634        |                        |                         | \$4,634              |
| U.S. Government agencies and corporations:                 |                   |                        |                         |                |                        |                         |                      |
| Agency securities  | 153,179           | 5,423                  | 122                     | 158,480        |                        |                         | 158,480              |
| Agency guaranteed mortgage-backed securities               | 535,228           | 18,211                 | 102                     | 553,337        |                        |                         | 553,337              |
| Small Business Administration loan-backed securities       | 1,153,039         | 12,119                 | 4,496                   | 1,160,662      |                        |                         | 1,160,662            |
| Municipal securities                                       | 120,677           | 3,191                  | 1,700                   | 122,168        |                        |                         | 122,168              |
| Asset-backed securities:                                   |                   |                        |                         |                |                        |                         |                      |
| Trust preferred securities – banks and insurance           | 1,794,427         | 15,792                 | 880,509                 | 929,710        |                        |                         | 929,710              |
| Trust preferred securities – real estate investment trusts | 40,259            | —                      | 21,614                  | 18,645         |                        |                         | 18,645               |
| Auction rate securities                                    | 71,338            | 164                    | 1,482                   | 70,020         |                        |                         | 70,020               |
| Other  | 64,646            | 1,028                  | 15,302                  | 50,372         |                        |                         | 50,372               |
|  | 3,937,123         | 56,232                 | 925,327                 | 3,068,028      |                        |                         | 3,068,028            |
| Mutual funds and other                                     | 162,606           | 167                    | 6                       | 162,767        |                        |                         | 162,767              |
|  | \$4,099,729       | \$56,399               | \$925,333               | \$3,230,795    |                        |                         | \$3,230,795          |

<sup>1</sup>The gross unrealized losses recognized in OCI resulted from a previous transfer of available-for-sale (“AFS”) securities to held-to-maturity (“HTM”).

The amortized cost and estimated fair value of investment debt securities are shown subsequently as of June 30, 2012 by expected maturity distribution for structured asset-backed collateralized debt obligations (“ABS CDOs”) and by contractual maturity distribution for other debt securities. Actual maturities may differ from expected or contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

Held-to-maturity

Available-for-sale

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| (In thousands)                         | Amortized<br>cost | Estimated<br>fair<br>value | Amortized<br>cost | Estimated<br>fair<br>value |
|--|-------------------|----------------------------|-------------------|----------------------------|
| Due in one year or less                | \$54,912          | \$55,321                   | \$450,929         | \$420,393                  |
| Due after one year through five years  | 207,047           | 201,654                    | 1,108,393         | 1,006,558                  |
| Due after five years through ten years | 172,813           | 154,922                    | 690,377           | 602,812                    |
| Due after ten years                    | 394,589           | 303,813                    | 1,527,057         | 924,851                    |
|  | \$829,361         | \$715,710                  | \$3,776,756       | \$2,954,614                |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The following is a summary of the amount of gross unrealized losses for debt securities and the estimated fair value by length of time the securities have been in an unrealized loss position:

| (In thousands)   | June 30, 2012           |                      |                         |                      |                         |                      |
|--|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|
|  | Less than 12 months     |                      | 12 months or more       |                      | Total                   |                      |
|  | Gross unrealized losses | Estimated fair value | Gross unrealized losses | Estimated fair value | Gross unrealized losses | Estimated fair value |
| Held-to-maturity   |                         |                      |                         |                      |                         |                      |
| Municipal securities                                       | \$225                   | \$11,399             | \$210                   | \$14,646             | \$435                   | \$26,045             |
| Asset-backed securities:                                   |                         |                      |                         |                      |                         |                      |
| Trust preferred securities – banks and insurance           | —                       | —                    | 117,109                 | 145,346              | 117,109                 | 145,346              |
| Other  | —                       | —                    | 11,415                  | 11,232               | 11,415                  | 11,232               |
|  | \$225                   | \$11,399             | \$128,734               | \$171,224            | \$128,959               | \$182,623            |
| Available-for-sale   |                         |                      |                         |                      |                         |                      |
| U.S. Government agencies and corporations:                 |                         |                      |                         |                      |                         |                      |
| Agency securities  | \$54                    | \$21,836             | \$84                    | \$7,168              | \$138                   | \$29,004             |
| Agency guaranteed mortgage-backed securities               | 48                      | 11,668               | 2                       | 241                  | 50                      | 11,909               |
| Small Business Administration loan-backed securities       | 235                     | 56,975               | 1,725                   | 165,355              | 1,960                   | 222,330              |
| Municipal securities                                       | 169                     | 5,420                | 2,216                   | 11,478               | 2,385                   | 16,898               |
| Asset-backed securities:                                   |                         |                      |                         |                      |                         |                      |
| Trust preferred securities – banks and insurance           | 1,162                   | 37,728               | 842,857                 | 706,134              | 844,019                 | 743,862              |
| Trust preferred securities – real estate investment trusts | —                       | —                    | 25,930                  | 14,431               | 25,930                  | 14,431               |
| Auction rate securities                                    | 27                      | 2,038                | 50                      | 1,057                | 77                      | 3,095                |
| Other  | —                       | —                    | 9,435                   | 15,701               | 9,435                   | 15,701               |
|  | 1,695                   | 135,665              | 882,299                 | 921,565              | 883,994                 | 1,057,230            |
| Mutual funds and other                                     | 18                      | 20,053               | —                       | —                    | 18                      | 20,053               |
|  | \$1,713                 | \$155,718            | \$882,299               | \$921,565            | \$884,012               | \$1,077,283          |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)   | December 31, 2011                                    |                         | 12 months or more             |                         | Total<br>Gross<br>unrealized<br>losses | Estimated<br>fair value |
|--|--|-------------------------|-------------------------------|-------------------------|--|-------------------------|
|  | Less than 12 months<br>Gross<br>unrealized<br>losses | Estimated<br>fair value | Gross<br>unrealized<br>losses | Estimated<br>fair value |  |                         |
| Held-to-maturity   |  |                         |                               |                         |  |                         |
| Municipal securities                                       | \$415  | \$10,855                | \$668                         | \$22,188                | \$1,083                                | \$33,043                |
| Asset-backed securities:                                   |  |                         |                               |                         |  |                         |
| Trust preferred securities – banks and insurance           | —  | —                       | 118,737                       | 144,053                 | 118,737                                | 144,053                 |
| Other  | —  | —                       | 11,249                        | 13,364                  | 11,249                                 | 13,364                  |
| Other debt securities                                      | 5  | 95                      | —                             | —                       | 5                                      | 95                      |
|  | \$420  | \$10,950                | \$130,654                     | \$179,605               | \$131,074                              | \$190,555               |
| Available-for-sale   |  |                         |                               |                         |  |                         |
| U.S. Government agencies and corporations:                 |  |                         |                               |                         |  |                         |
| Agency securities  | \$60   | \$13,308                | \$62                          | \$3,880                 | \$122                                  | \$17,188                |
| Agency guaranteed mortgage-backed securities               | 102  | 52,267                  | —                             | —                       | 102                                    | 52,267                  |
| Small Business Administration loan-backed securities       | 1,783  | 260,865                 | 2,713                         | 191,339                 | 4,496                                  | 452,204                 |
| Municipal securities                                       | 1,305  | 15,011                  | 395                           | 4,023                   | 1,700                                  | 19,034                  |
| Asset-backed securities:                                   |  |                         |                               |                         |  |                         |
| Trust preferred securities – banks and insurance           | —  | —                       | 880,509                       | 695,365                 | 880,509                                | 695,365                 |
| Trust preferred securities – real estate investment trusts | —  | —                       | 21,614                        | 18,645                  | 21,614                                 | 18,645                  |
| Auction rate securities                                    | 158  | 27,998                  | 1,324                         | 34,115                  | 1,482                                  | 62,113                  |
| Other  | —  | —                       | 15,302                        | 18,585                  | 15,302                                 | 18,585                  |
|  | 3,408  | 369,449                 | 921,919                       | 965,952                 | 925,327                                | 1,335,401               |
| Mutual funds and other                                     | 6  | 167                     | —                             | —                       | 6                                      | 167                     |
|  | \$3,414  | \$369,616               | \$921,919                     | \$965,952               | \$925,333                              | \$1,335,568             |

At June 30, 2012 and December 31, 2011, respectively, 89 and 72 HTM and 365 and 525 AFS investment securities were in an unrealized loss position.

**Other-Than-Temporary Impairment**

We conduct a formal review of investment securities on a quarterly basis for the presence of other-than-temporary impairment (“OTTI”). We assess whether OTTI is present when the fair value of a debt security is less than its amortized cost basis at the balance sheet date. Under these circumstances, OTTI is considered to have occurred if (1) we intend to sell the security; (2) it is “more likely than not” we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis.

Credit-related OTTI is recognized in earnings while noncredit-related OTTI on securities not expected to be sold is recognized in OCI. Noncredit-related OTTI is based on other factors, including illiquidity. Presentation of OTTI is made in the statement of income on a gross basis with an offset for the amount of OTTI recognized in OCI. For securities classified as HTM, the amount of noncredit-related OTTI recognized in OCI is accreted to the

credit-adjusted expected cash flow amounts of the securities over future periods.

Our 2011 Annual Report on Form 10-K describes in more detail our OTTI evaluation process. The following summarizes the conclusions from our OTTI evaluation for those security types that have significant gross unrealized losses at June 30, 2012:

OTTI – Municipal Securities

The HTM securities are purchased directly from municipalities and are generally not rated by a credit rating agency. The AFS securities are rated as investment grade by various credit rating agencies. Both the HTM and AFS securities are at fixed and variable rates with maturities from one to 25 years. Fair value changes of these securities are largely driven by interest rates. We perform credit quality reviews on these securities at each reporting period. Because the decline in fair value is not attributable to credit quality, no OTTI for these securities was recorded for the three months ended June 30, 2012.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## OTTI – Asset-Backed Securities

Trust preferred securities – banks and insurance: These CDO securities are interests in variable rate pools of trust preferred securities related to banks and insurance companies (“collateral issuers”). They are rated by one or more Nationally Recognized Statistical Rating Organizations (“NRSROs”), which are rating agencies registered with the Securities and Exchange Commission (“SEC”). They were purchased generally at par. The primary drivers that have given rise to the unrealized losses on CDOs with bank and insurance collateral are listed below:

Market yield requirements for bank CDO securities remain very high. The credit crisis resulted in significant utilization of both the unique five-year deferral option each collateral issuer maintains during the life of the CDO and the ability of junior CDO bonds to defer the payment of current interest. The resulting increase in the rate of return demanded by the market for trust preferred CDOs remains dramatically higher than the effective interest rates. All structured product fair values, including bank CDOs, deteriorated significantly during the credit crisis,

1) generally reaching a low in mid-2009. Prices for some structured products, other than bank CDOs, have since rebounded as the crucial unknowns related to value became resolved and as trading increased in these securities. Unlike these other structured products, CDO tranches backed by bank trust preferred securities continue to have unresolved questions surrounding collateral behavior, specifically including, but not limited to, the future number, size and timing of bank failures, and of allowed deferrals and subsequent resumption of payment of contractual interest.

Structural features of the collateral make these CDO tranches difficult for market participants to model. The first feature unique to bank CDOs is the interest deferral feature previously discussed. During the credit crisis starting in 2008, certain banks within our CDO pools have exercised this prerogative. The extent to which these deferrals 2) either transition to default or alternatively come current prior to the five-year deadline is extremely difficult for market participants to assess. Our CDO pools include banks which first exercised this deferral option in the second quarter of 2008. At June 30, 2012, 53 banks in our CDO pools had come current after a period of deferral, while 215 were deferring, but remained within the allowed deferral period.

A second structural feature that is difficult to model is the payment in kind (“PIK”) feature which provides that upon reaching certain levels of collateral default or deferral, certain junior CDO tranches will not receive current interest but will instead have the interest amount that is unpaid be capitalized or deferred. The cash flow that would otherwise be paid to the junior CDO securities and the income notes is instead used to pay down the principal balance of the most senior CDO securities. If the current market yield required by market participants equaled the effective interest rate of a security, a market participant should be indifferent between receiving current interest and capitalizing and compounding interest for later payment. However, given the difference between current market rates and effective interest rates of the securities, market participants are not indifferent. The delay in payment caused by PIKing results in lower security fair values even if PIKing is projected to be fully cured. This feature is difficult to model and assess. It increases the risk premium the market applies to these securities.

Ratings are generally below-investment-grade for even some of the most senior tranches. Rating agency opinions 3) can vary significantly on a CDO tranche. The presence of a below-investment-grade rating by even a single rating agency will severely limit the pool of buyers, which causes greater illiquidity and therefore most likely a higher implicit discount rate/lower price with regard to that CDO tranche.

4) There is a lack of consistent disclosure by each CDO’s trustee of the identity of collateral issuers; in addition, complex structures make projecting tranche return profiles difficult for non-specialists in the product.

5) At purchase, the expectation of cash flow variability was limited. As a result of the credit crisis, we have seen extreme variability of collateral performance both compared to expectations and between different pools.

Our ongoing review of these securities determined that OTTI should be recorded for the three months ended June 30, 2012.

Trust preferred securities – real estate investment trusts (“REITs”): These CDO securities are variable rate pools of trust preferred securities primarily related to REITs, and are rated by one or more NRSROs. They were purchased generally at par. Unrealized losses were caused mainly by severe deterioration in mortgage REITs and homebuilder credit in addition to the same factors previously discussed for banks and insurance CDOs. Based on our review, no OTTI for these securities was recorded for the three months ended June 30, 2012.

Other asset-backed securities: Most of these CDO securities were purchased in 2009 from Lockhart Funding LLC at their carrying values and then adjusted to fair value. Certain of these CDOs consist of ABS CDOs (also known as diversified structured finance CDOs). Unrealized losses since acquisition were caused mainly by deterioration in collateral quality and widening of credit spreads for asset backed securities. Based on our review, no OTTI for these securities was recorded for the three months ended June 30, 2012.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## OTTI – U.S. Government Agencies and Corporations

Small Business Administration (“SBA”) Loan-Backed Securities: These securities were generally purchased at premiums with maturities from five to 25 years and have principal cash flows guaranteed by the SBA. Because the decline in fair value is not attributable to credit quality, no OTTI for these securities was recorded for the three months ended June 30, 2012.

The following is a tabular rollforward of the total amount of credit-related OTTI, including amounts recognized in earnings:

| (In thousands)  | Three Months Ended |               |               | Six Months Ended |               |               |
|---|--------------------|---------------|---------------|------------------|---------------|---------------|
|   | June 30, 2012      |               |               | June 30, 2012    |               |               |
|   | HTM                | AFS           | Total         | HTM              | AFS           | Total         |
| Balance of credit-related OTTI at beginning of period   | \$ (6,126 )        | \$ (308,216 ) | \$ (314,342 ) | \$ (6,126 )      | \$ (314,860 ) | \$ (320,986 ) |
| Additions recognized in earnings during the period:   |                    |               |               |                  |               |               |
| Credit-related OTTI not previously recognized <sup>1</sup>  | (341 )             | —             | (341 )        | (341 )           | —             | (341 )        |
| Credit-related OTTI previously recognized when there is no intent to sell and no requirement to sell before recovery of amortized cost basis <sup>2</sup> | —                  | (6,967 )      | (6,967 )      | —                | (17,176 )     | (17,176 )     |
| Subtotal of amounts recognized in earnings  | (341 )             | (6,967 )      | (7,308 )      | (341 )           | (17,176 )     | (17,517 )     |
| Reductions for securities sold during the period  |                    | —             | —             |                  | 16,853        | 16,853        |
| Balance of credit-related OTTI at end of period   | \$ (6,467 )        | \$ (315,183 ) | \$ (321,650 ) | \$ (6,467 )      | \$ (315,183 ) | \$ (321,650 ) |

| (In thousands)  | Three Months Ended |               |               | Six Months Ended |               |               |
|---|--------------------|---------------|---------------|------------------|---------------|---------------|
|   | June 30, 2011      |               |               | June 30, 2011    |               |               |
|   | HTM                | AFS           | Total         | HTM              | AFS           | Total         |
| Balance of credit-related OTTI at beginning of period   | \$ (5,357 )        | \$ (312,353 ) | \$ (317,710 ) | \$ (5,357 )      | \$ (335,682 ) | \$ (341,039 ) |
| Additions recognized in earnings during the period:   |                    |               |               |                  |               |               |
| Credit-related OTTI previously recognized when there is no intent to sell and no requirement to sell before recovery of amortized cost basis <sup>2</sup> | —                  | (5,158 )      | (5,158 )      | —                | (8,263 )      | (8,263 )      |
| Subtotal of amounts recognized in earnings  | —                  | (5,158 )      | (5,158 )      | —                | (8,263 )      | (8,263 )      |
| Reductions for securities sold during the period  |                    | 27,302        | 27,302        |                  | 53,736        | 53,736        |
| Balance of credit-related OTTI at end of period   | \$ (5,357 )        | \$ (290,209 ) | \$ (295,566 ) | \$ (5,357 )      | \$ (290,209 ) | \$ (295,566 ) |

<sup>1</sup> Relates to securities not previously impaired.



<sup>2</sup> Relates to additional impairment on securities previously impaired.

To determine the credit component of OTTI for all security types, we utilize projected cash flows as the best estimate of fair value. These cash flows are credit adjusted using, among other things, assumptions for default probability assigned to each portion of performing collateral. The credit adjusted cash flows are discounted at a security specific coupon rate to identify any OTTI, and then at a market rate for valuation purposes.

For those securities with credit-related OTTI recognized in the statement of income, the amounts of pretax noncredit-related OTTI recognized in OCI were as follows:

| (In thousands) | Three Months Ended June 30, |         | Six Months Ended<br>June 30, |         |
|----------------|-----------------------------|---------|------------------------------|---------|
|                | 2012                        | 2011    | 2012                         | 2011    |
| HTM            | \$16,718                    | \$—     | \$16,718                     | \$—     |
| AFS            | —                           | 1,181   | 8,064                        | 1,181   |
|                | \$16,718                    | \$1,181 | \$24,782                     | \$1,181 |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

During the three and six months ended June 30, nontaxable interest income on securities was \$4.7 million and \$9.5 million in 2012, and \$5.4 million and \$11.2 million in 2011, respectively.

The following summarizes gains and losses, including OTTI, that were recognized in the statement of income:

| (In thousands)                                 | Three Months Ended |              |               |              | Six Months Ended |              |               |              |
|--|--------------------|--------------|---------------|--------------|------------------|--------------|---------------|--------------|
|  | June 30, 2012      |              | June 30, 2011 |              | June 30, 2012    |              | June 30, 2011 |              |
|  | Gross gains        | Gross losses | Gross gains   | Gross losses | Gross gains      | Gross losses | Gross gains   | Gross losses |
| Investment securities:                         |                    |              |               |              |                  |              |               |              |
| Held-to-maturity                               | \$49               | \$341        | \$71          | \$—          | \$98             | \$341        | \$117         | \$—          |
| Available-for-sale                             | 5,470              | 6,967        | 4,063         | 11,688       | 11,929           | 22,964       | 7,582         | 18,417       |
| Other noninterest-bearing investments:         |                    |              |               |              |                  |              |               |              |
| Nonmarketable equity securities                | 10,518             | 10,411       | —             | 1,636        | 19,721           | 10,469       | 1,068         | 1,807        |
|  | 16,037             | 17,719       | 4,134         | 13,324       | 31,748           | 33,774       | 8,767         | 20,224       |
| Net losses                                     |                    | \$(1,682)    |               | \$(9,190)    |                  | \$(2,026)    |               | \$(11,457)   |
| Statement of income information:               |                    |              |               |              |                  |              |               |              |
| Net impairment losses on investment securities |                    | \$(7,308)    |               | \$(5,158)    |                  | \$(17,517)   |               | \$(8,263)    |
| Equity securities gains (losses), net          |                    | 107          |               | (1,636)      |                  | 9,252        |               | (739)        |
| Fixed income securities gains (losses), net    |                    | 5,519        |               | (2,396)      |                  | 6,239        |               | (2,455)      |
| Net losses                                     |                    | \$(1,682)    |               | \$(9,190)    |                  | \$(2,026)    |               | \$(11,457)   |

Gains and losses on the sale of securities are recognized using the specific identification method and recorded in noninterest income.

Securities with a carrying value of \$1.3 billion at June 30, 2012 and \$1.5 billion at December 31, 2011 were pledged to secure public and trust deposits, advances, and for other purposes as required by law. Securities are also pledged as collateral for security repurchase agreements.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## 5. LOANS AND ALLOWANCE FOR CREDIT LOSSES

## Loans and Loans Held for Sale

Loans are summarized as follows according to major portfolio segment and specific loan class:

| (In thousands)                              | June 30,<br>2012 | December 31,<br>2011 |
|---|------------------|----------------------|
| Loans held for sale                         | \$ 139,245       | \$ 201,590           |
| Commercial:                                 |                  |                      |
| Commercial and industrial                   | \$ 10,382,676    | \$ 10,334,858        |
| Leasing                                     | 406,502          | 379,709              |
| Owner occupied                              | 7,810,636        | 8,158,556            |
| Municipal                                   | 476,668          | 441,241              |
| Total commercial                            | 19,076,482       | 19,314,364           |
| Commercial real estate:                     |                  |                      |
| Construction and land development           | 2,099,064        | 2,264,909            |
| Term  | 8,011,281        | 7,883,434            |
| Total commercial real estate                | 10,110,345       | 10,148,343           |
| Consumer:                                   |                  |                      |
| Home equity credit line                     | 2,180,857        | 2,187,428            |
| 1-4 family residential                      | 4,018,858        | 3,921,216            |
| Construction and other consumer real estate | 327,867          | 305,873              |
| Bankcard and other revolving plans          | 284,112          | 291,018              |
| Other                                       | 232,583          | 225,540              |
| Total consumer                              | 7,044,277        | 6,931,075            |
| FDIC-supported loans                        | 642,246          | 750,870              |
| Total loans                                 | \$ 36,873,350    | \$ 37,144,652        |

FDIC-supported loans were acquired during 2009 and are indemnified by the Federal Deposit Insurance Corporation ("FDIC") under loss sharing agreements. The FDIC-supported loan balances presented in the accompanying schedules include purchased credit-impaired loans accounted for at their carrying values rather than their outstanding balances. See subsequent discussion under Purchased Loans.

Loan balances are presented net of unearned income and fees, which amounted to \$133.1 million at both June 30, 2012 and December 31, 2011.

Owner occupied and commercial real estate loans include unamortized premiums of approximately \$64.8 million at June 30, 2012 and \$73.4 million at December 31, 2011.

Municipal loans generally include loans to municipalities with the debt service being repaid from general funds or pledged revenues of the municipal entity, or to private commercial entities or 501(c)(3) not-for-profit entities utilizing a pass-through municipal entity to achieve favorable tax treatment.

Loans with a carrying value of approximately \$21.0 billion at June 30, 2012 and \$21.1 billion at December 31, 2011 have been made available for pledging at the Federal Reserve and various Federal Home Loan Banks as collateral for current and potential borrowings.

We sold loans totaling \$449 million and \$875 million for the three and six months ended June 30, 2012, and \$392 million and \$850 million for the three and six months ended June 30, 2011, respectively, that were previously classified as loans held for sale. Amounts added to loans held for sale during these periods were \$401 million and \$808 million for the three and six months ended June 30, 2012 and \$353 million and \$788 million for the three and six months ended June 30, 2011, respectively. Income from loans sold, excluding servicing, was \$7.9 million and \$14.0

million for the three and six months ended June 30, 2012 and \$7.0 million and \$10.1 million for the three and six months ended June 30, 2011.

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ZIONS BANCORPORATION AND SUBSIDIARIES

Allowance for Credit Losses

The allowance for credit losses (“ACL”) consists of the allowance for loan and lease losses (“ALLL,” also referred to as the allowance for loan losses) and the reserve for unfunded lending commitments (“RULC”).

Allowance for Loan and Lease Losses

The ALLL represents our estimate of probable and estimable losses inherent in the loan and lease portfolio as of the balance sheet date. Losses are charged to the ALLL when recognized. Generally, commercial loans are charged off or charged down at the point at which they are determined to be uncollectible in whole or in part, or when 180 days past due unless the loan is well secured and in the process of collection. Consumer loans are either charged off or charged down to net realizable value no later than the month in which they become 180 days past due. Closed-end loans that are not secured by residential real estate are either charged off or charged down to net realizable value no later than the month in which they become 120 days past due. We establish the amount of the ALLL by analyzing the portfolio at least quarterly, and we adjust the provisions for loan losses so the ALLL is at an appropriate level at the balance sheet date.

We determine our ALLL as the best estimate within a range of estimated losses. The methodologies we use to estimate the ALLL depend upon the impairment status and portfolio segment of the loan. The methodology for impaired loans is discussed subsequently. For the commercial and commercial real estate segments, we use a comprehensive loan grading system to assign probability of default and loss given default grades to each loan. The credit quality indicators discussed subsequently are based on this grading system. Probability of default and loss given default grades are based on both financial and statistical models and loan officers’ judgment. We create groupings of these grades for each subsidiary bank and loan class and calculate historic loss rates using a loss migration analysis that attributes historic realized losses to historic loan grades over the most recent 60 months.

For the consumer loan segment, we use roll rate models to forecast probable inherent losses. Roll rate models measure the rate at which consumer loans migrate from one delinquency category to the next worse delinquency category, and eventually to loss. We estimate roll rates for consumer loans using recent delinquency and loss experience. These roll rates are then applied to current delinquency levels to estimate probable inherent losses.

For FDIC-supported loans purchased with evidence of credit deterioration, we determine the ALLL according to separate accounting guidance. The accounting for these loans, including the allowance calculation, is described in the Purchased Loans section following.

After applying historic loss experience, as described above, we review the quantitatively derived level of ALLL for each segment using qualitative criteria. We track various risk factors that influence our judgment regarding the level of the ALLL across the portfolio segments. Primary qualitative and environmental factors that may not be reflected in our quantitative models include:

▲Asset quality trends

▲Risk management and loan administration practices

▲Risk identification practices

▲Effect of changes in the nature and volume of the portfolio

▲Existence and effect of any portfolio concentrations

▲National economic and business conditions

▲Regional and local economic and business conditions

▲Data availability and applicability

We review changes in these factors to ensure that changes in the level of the ALLL are directionally consistent with changes in these factors. The magnitude of the impact of these factors on our qualitative assessment of the ALLL changes from quarter to quarter according to the extent these factors are already reflected in historic loss rates and according to the extent these factors diverge from one another. We also consider the uncertainty inherent in the estimation process when evaluating the ALLL.



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## ZIONS BANCORPORATION AND SUBSIDIARIES

## Reserve for Unfunded Lending Commitments

We also estimate a reserve for potential losses associated with off-balance sheet commitments and standby letters of credit. We determine the RULC using the same procedures and methodologies that we use for the ALLL. The loss factors used in the RULC are the same as the loss factors used in the ALLL, and the qualitative adjustments used in the RULC are the same as the qualitative adjustments used in the ALLL. We adjust the Company's unfunded lending commitments that are not unconditionally cancelable to an outstanding amount equivalent using credit conversion factors and we apply the loss factors to the outstanding equivalents.

Changes in the allowance for credit losses are summarized as follows:

| (In thousands)                                      | Three Months Ended June 30, 2012 |                           |           |                                 |             |
|---|----------------------------------|---------------------------|-----------|---------------------------------|-------------|
|   | Commercial                       | Commercial<br>real estate | Consumer  | FDIC-<br>supported <sup>1</sup> | Total       |
| Allowance for loan losses:                          |                                  |                           |           |                                 |             |
| Balance at beginning of period                      | \$631,169                        | \$248,744                 | \$109,101 | \$21,045                        | \$1,010,059 |
| Additions:  |                                  |                           |           |                                 |             |
| Provision for loan losses                           | 5,733                            | (6,271 )                  | 12,455    | (1,064 )                        | 10,853      |
| Adjustment for FDIC-supported loans                 |                                  |                           |           | (5,856 )                        | (5,856 )    |
| Deductions:   |                                  |                           |           |                                 |             |
| Gross loan and lease charge-offs                    | (31,576 )                        | (22,823 )                 | (17,322 ) | (1,964 )                        | (73,685 )   |
| Recoveries  | 11,033                           | 12,399                    | (1,843 )  | 8,756                           | 30,345      |
| Net loan and lease charge-offs                      | (20,543 )                        | (10,424 )                 | (19,165 ) | 6,792                           | (43,340 )   |
| Balance at end of period                            | \$616,359                        | \$232,049                 | \$102,391 | \$20,917                        | \$971,716   |
| Reserve for unfunded lending commitments:           |                                  |                           |           |                                 |             |
| Balance at beginning of period                      | \$72,002                         | \$25,799                  | \$917     | \$—                             | \$98,718    |
| Provision charged (credited) to earnings            | (1,449 )                         | 5,864                     | 453       | —                               | 4,868       |
| Balance at end of period                            | \$70,553                         | \$31,663                  | \$1,370   | \$—                             | \$103,586   |
| Total allowance for credit losses at end of period: |                                  |                           |           |                                 |             |
| Allowance for loan losses                           | \$616,359                        | \$232,049                 | \$102,391 | \$20,917                        | \$971,716   |
| Reserve for unfunded lending commitments            | 70,553                           | 31,663                    | 1,370     | —                               | 103,586     |
| Total allowance for credit losses                   | \$686,912                        | \$263,712                 | \$103,761 | \$20,917                        | \$1,075,302 |





Total allowance for credit losses at end of period:

|  |           |           |           |          |             |
|--|-----------|-----------|-----------|----------|-------------|
| Allowance for loan losses                | \$667,646 | \$392,852 | \$149,773 | \$27,462 | \$1,237,733 |
| Reserve for unfunded lending commitments | 75,082    | 23,852    | 1,330     | —        | 100,264     |
| Total allowance for credit losses        | \$742,728 | \$416,704 | \$151,103 | \$27,462 | \$1,337,997 |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)                                      | Six Months Ended June 30, 2011 |                        |           |                             |             |
|---|--------------------------------|------------------------|-----------|-----------------------------|-------------|
|   | Commercial                     | Commercial real estate | Consumer  | FDIC-supported <sup>1</sup> | Total       |
| Allowance for loan losses:                          |                                |                        |           |                             |             |
| Balance at beginning of period                      | \$761,107                      | \$487,235              | \$154,326 | \$37,673                    | \$1,440,341 |
| Additions:  |                                |                        |           |                             |             |
| Provision for loan losses                           | (9,900 )                       | 28,295                 | 37,946    | 4,989                       | 61,330      |
| Adjustment for FDIC-supported loans                 |                                |                        |           | (4,676 )                    | (4,676 )    |
| Deductions:   |                                |                        |           |                             |             |
| Gross loan and lease charge-offs                    | (109,056 )                     | (138,191 )             | (49,932 ) | (13,233 )                   | (310,412 )  |
| Recoveries  | 25,495                         | 15,513                 | 7,433     | 2,709                       | 51,150      |
| Net loan and lease charge-offs                      | (83,561 )                      | (122,678 )             | (42,499 ) | (10,524 )                   | (259,262 )  |
| Balance at end of period                            | \$667,646                      | \$392,852              | \$149,773 | \$27,462                    | \$1,237,733 |
| Reserve for unfunded lending commitments:           |                                |                        |           |                             |             |
| Balance at beginning of period                      | \$83,352                       | \$26,373               | \$1,983   | \$—                         | \$111,708   |
| Provision charged (credited) to earnings            | (8,270 )                       | (2,521 )               | (653 )    | —                           | (11,444 )   |
| Balance at end of period                            | \$75,082                       | \$23,852               | \$1,330   | \$—                         | \$100,264   |
| Total allowance for credit losses at end of period: |                                |                        |           |                             |             |
| Allowance for loan losses                           | \$667,646                      | \$392,852              | \$149,773 | \$27,462                    | \$1,237,733 |
| Reserve for unfunded lending commitments            | 75,082                         | 23,852                 | 1,330     | —                           | 100,264     |
| Total allowance for credit losses                   | \$742,728                      | \$416,704              | \$151,103 | \$27,462                    | \$1,337,997 |

<sup>1</sup> The Purchased Loans section following contains further discussion related to FDIC-supported loans.

The ALLL and outstanding loan balances according to the Company's impairment method are summarized as follows:

| (In thousands)  | June 30, 2012 |                        |             |                |              |
|---|---------------|------------------------|-------------|----------------|--------------|
|   | Commercial    | Commercial real estate | Consumer    | FDIC-supported | Total        |
| Allowance for loan losses:                            |               |                        |             |                |              |
| Individually evaluated for impairment                 | \$34,434      | \$24,141               | \$12,042    | \$542          | \$71,159     |
| Collectively evaluated for impairment                 | 581,925       | 207,908                | 90,349      | 15,424         | 895,606      |
| Purchased loans with evidence of credit deterioration | —             | —                      | —           | 4,951          | 4,951        |
| Total   | \$616,359     | \$232,049              | \$102,391   | \$20,917       | \$971,716    |
| Outstanding loan balances:                            |               |                        |             |                |              |
| Individually evaluated for impairment                 | \$368,751     | \$505,902              | \$105,769   | \$1,819        | \$982,241    |
| Collectively evaluated for impairment                 | 18,707,731    | 9,604,443              | 6,938,508   | 543,631        | 35,794,313   |
| Purchased loans with evidence of credit deterioration | —             | —                      | —           | 96,796         | 96,796       |
| Total   | \$19,076,482  | \$10,110,345           | \$7,044,277 | \$642,246      | \$36,873,350 |



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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)  | December 31, 2011 |                           |              |                    | Total         |
|---|-------------------|---------------------------|--------------|--------------------|---------------|
|   | Commercial        | Commercial<br>real estate | Consumer     | FDIC-<br>supported |               |
| Allowance for loan losses:                            |                   |                           |              |                    |               |
| Individually evaluated for impairment                 | \$ 11,456         | \$ 20,971                 | \$ 8,995     | \$ 623             | \$ 42,045     |
| Collectively evaluated for impairment                 | 616,369           | 254,575                   | 114,120      | 16,830             | 1,001,894     |
| Purchased loans with evidence of credit deterioration | —                 | —                         | —            | 6,019              | 6,019         |
| Total   | \$ 627,825        | \$ 275,546                | \$ 123,115   | \$ 23,472          | \$ 1,049,958  |
| Outstanding loan balances:                            |                   |                           |              |                    |               |
| Individually evaluated for impairment                 | \$ 349,662        | \$ 668,022                | \$ 113,798   | \$ 2,701           | \$ 1,134,183  |
| Collectively evaluated for impairment                 | 18,964,702        | 9,480,321                 | 6,817,277    | 637,962            | 35,900,262    |
| Purchased loans with evidence of credit deterioration | —                 | —                         | —            | 110,207            | 110,207       |
| Total   | \$ 19,314,364     | \$ 10,148,343             | \$ 6,931,075 | \$ 750,870         | \$ 37,144,652 |

## Nonaccrual and Past Due Loans

Loans are generally placed on nonaccrual status when payment in full of principal and interest is not expected, or the loan is 90 days or more past due as to principal or interest, unless the loan is both well secured and in the process of collection. Factors we consider in determining whether a loan is placed on nonaccrual include delinquency status, collateral value, borrower or guarantor financial statement information, bankruptcy status, and other information which would indicate that the full and timely collection of interest and principal is uncertain.

A nonaccrual loan may be returned to accrual status when all delinquent interest and principal become current in accordance with the terms of the loan agreement; the loan, if secured, is well secured; the borrower has paid according to the contractual terms for a minimum of six months; and analysis of the borrower indicates a reasonable assurance of the ability and willingness to maintain payments. Payments received on nonaccrual loans are applied as a reduction to the principal outstanding.

Closed-end loans with payments scheduled monthly are reported as past due when the borrower is in arrears for two or more monthly payments. Similarly, open-end credit such as charge-card plans and other revolving credit plans are reported as past due when the minimum payment has not been made for two or more billing cycles. Other multi-payment obligations (i.e., quarterly, semiannual, etc.), single payment, and demand notes are reported as past due when either principal or interest is due and unpaid for a period of 30 days or more.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

Nonaccrual loans are summarized as follows:

| (In thousands)                              | June 30,<br>2012 | December 31,<br>2011 |
|---|------------------|----------------------|
| Loans held for sale                         | \$30             | \$18,216             |
| Commercial:                                 |                  |                      |
| Commercial and industrial                   | \$133,241        | \$126,468            |
| Leasing                                     | 1,259            | 1,546                |
| Owner occupied                              | 239,549          | 239,203              |
| Total commercial                            | 374,049          | 367,217              |
| Commercial real estate:                     |                  |                      |
| Construction and land development           | 115,411          | 219,837              |
| Term  | 182,412          | 156,165              |
| Total commercial real estate                | 297,823          | 376,002              |
| Consumer:                                   |                  |                      |
| Home equity credit line                     | 13,741           | 18,376               |
| 1-4 family residential                      | 74,935           | 90,857               |
| Construction and other consumer real estate | 7,731            | 12,096               |
| Bankcard and other revolving plans          | 1,256            | 346                  |
| Other                                       | 1,945            | 2,498                |
| Total consumer loans                        | 99,608           | 124,173              |
| FDIC-supported loans                        | 21,980           | 24,267               |
| Total                                       | \$793,460        | \$891,659            |

Past due loans (accruing and nonaccruing) are summarized as follows:

| (In thousands)                       | June 30, 2012 |                        |                      |                   |                   | Total<br>loans | Accruing<br>loans<br>90+ days<br>past due | Nonaccrual<br>loans<br>that are<br>current <sup>1</sup> |
|--------------------------------------|---------------|------------------------|----------------------|-------------------|-------------------|----------------|---|---|
|                                      | Current       | 30-89 days<br>past due | 90+ days<br>past due | Total<br>past due | Total<br>past due |                |   |   |
| Loans held for sale                  | \$139,215     | \$30                   | \$—                  | \$30              | \$30              | \$139,245      | \$—                                       | \$—   |
| Commercial:                          |               |                        |                      |                   |                   |                |   |   |
| Commercial and industrial            | \$10,242,577  | \$53,792               | \$86,307             | \$140,099         | \$140,099         | \$10,382,676   | \$7,440                                   | \$44,566  |
| Leasing                              | 404,387       | 825                    | 1,290                | 2,115             | 2,115             | 406,502        | 34  | —   |
| Owner occupied                       | 7,632,058     | 53,507                 | 125,071              | 178,578           | 178,578           | 7,810,636      | 4,674                                     | 97,109  |
| Municipal                            | 476,668       | —                      | —                    | —                 | —                 | 476,668        | —   | —   |
| Total commercial                     | 18,755,690    | 108,124                | 212,668              | 320,792           | 320,792           | 19,076,482     | 12,148                                    | 141,675   |
| Commercial real estate:              |               |                        |                      |                   |                   |                |   |   |
| Construction and land<br>development | 2,008,441     | 32,853                 | 57,770               | 90,623            | 90,623            | 2,099,064      | 2,335                                     | 50,991  |
| Term                                 | 7,885,492     | 36,470                 | 89,319               | 125,789           | 125,789           | 8,011,281      | 1,221                                     | 80,753  |
| Total commercial real estate         | 9,893,933     | 69,323                 | 147,089              | 216,412           | 216,412           | 10,110,345     | 3,556                                     | 131,744   |
| Consumer:                            |               |                        |                      |                   |                   |                |   |   |
| Home equity credit line              | 2,169,606     | 6,188                  | 5,063                | 11,251            | 11,251            | 2,180,857      | —   | 6,001   |
| 1-4 family residential               | 3,960,786     | 13,405                 | 44,667               | 58,072            | 58,072            | 4,018,858      | 459                                       | 27,160  |
|                                      | 310,855       | 2,101                  | 14,911               | 17,012            | 17,012            | 327,867        | 12,096                                    | 4,339   |

|  |              |           |           |           |              |          |           |
|--|--------------|-----------|-----------|-----------|--------------|----------|-----------|
| Construction and other<br>consumer real estate |              |           |           |           |              |          |           |
| Bankcard and other<br>revolving plans          | 279,221      | 3,144     | 1,747     | 4,891     | 284,112      | 1,197    | 580       |
| Other  | 229,536      | 1,639     | 1,408     | 3,047     | 232,583      | 4        | 465       |
| Total consumer loans                           | 6,950,004    | 26,477    | 67,796    | 94,273    | 7,044,277    | 13,756   | 38,545    |
| FDIC-supported loans                           | 541,689      | 17,430    | 83,127    | 100,557   | 642,246      | 70,453   | 7,395     |
| Total  | \$36,141,316 | \$221,354 | \$510,680 | \$732,034 | \$36,873,350 | \$99,913 | \$319,359 |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)                              | December 31, 2011 |                        |                      |                   | Total<br>loans | Accruing<br>loans<br>90+ days<br>past due | Nonaccrual<br>loans<br>that are<br>current <sup>1</sup> |
|---|-------------------|------------------------|----------------------|-------------------|----------------|---|---|
|   | Current           | 30-89 days<br>past due | 90+ days<br>past due | Total<br>past due |                |   |   |
| Loans held for sale                         | \$ 183,344        | \$—                    | \$ 18,246            | \$ 18,246         | \$ 201,590     | \$ 30                                     | \$—   |
| <b>Commercial:</b>                          |                   |                        |                      |                   |                |   |   |
| Commercial and industrial                   | \$ 10,198,434     | \$ 62,153              | \$ 74,271            | \$ 136,424        | \$ 10,334,858  | \$ 4,966                                  | \$ 47,939   |
| Leasing                                     | 377,914           | 1,634                  | 161                  | 1,795             | 379,709        | —   | 1,319   |
| Owner occupied                              | 7,953,280         | 93,763                 | 111,513              | 205,276           | 8,158,556      | 3,230                                     | 85,495  |
| Municipal                                   | 441,241           | —                      | —                    | —                 | 441,241        | —   | —   |
| Total commercial                            | 18,970,869        | 157,550                | 185,945              | 343,495           | 19,314,364     | 8,196                                     | 134,753   |
| <b>Commercial real estate:</b>              |                   |                        |                      |                   |                |   |   |
| Construction and land development           | 2,137,544         | 21,562                 | 105,803              | 127,365           | 2,264,909      | 2,471                                     | 107,991   |
| Term  | 7,770,268         | 51,592                 | 61,574               | 113,166           | 7,883,434      | 4,170                                     | 88,451  |
| Total commercial real estate                | 9,907,812         | 73,154                 | 167,377              | 240,531           | 10,148,343     | 6,641                                     | 196,442   |
| <b>Consumer:</b>                            |                   |                        |                      |                   |                |   |   |
| Home equity credit line                     | 2,169,190         | 8,669                  | 9,569                | 18,238            | 2,187,428      | —   | 5,542   |
| 1-4 family residential                      | 3,846,012         | 18,985                 | 56,219               | 75,204            | 3,921,216      | 2,833                                     | 32,067  |
| Construction and other consumer real estate | 294,371           | 5,008                  | 6,494                | 11,502            | 305,873        | 136                                       | 4,773   |
| Bankcard and other revolving plans          | 287,541           | 1,984                  | 1,493                | 3,477             | 291,018        | 1,309                                     | 122   |
| Other                                       | 221,575           | 1,995                  | 1,970                | 3,965             | 225,540        | —   | 372   |
| Total consumer loans                        | 6,818,689         | 36,641                 | 75,745               | 112,386           | 6,931,075      | 4,278                                     | 42,876  |
| FDIC-supported loans                        | 634,113           | 27,791                 | 88,966               | 116,757           | 750,870        | 74,611                                    | 6,812   |
| Total                                       | \$ 36,331,483     | \$ 295,136             | \$ 518,033           | \$ 813,169        | \$ 37,144,652  | \$ 93,726                                 | \$ 380,883  |

<sup>1</sup> Represents nonaccrual loans that are not past due more than 30 days; however, full payment of principal and interest is still not expected.

**Credit Quality Indicators**

In addition to the past due and nonaccrual criteria, we also analyze loans using a loan grading system. We generally assign internal grades to loans with commitments less than \$500,000 based on the performance of those loans.

Performance-based grades follow our definitions of Pass, Special Mention, Substandard, and Doubtful, which are consistent with published definitions of regulatory risk classifications.

Definitions of Pass, Special Mention, Substandard, and Doubtful are summarized as follows:

Pass: A Pass asset is higher quality and does not fit any of the other categories described below. The likelihood of loss is considered remote.

Special Mention: A Special Mention asset has potential weaknesses that may be temporary or, if left uncorrected, may result in a loss. While concerns exist, the bank is currently protected and loss is considered unlikely and not imminent.

Substandard: A Substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have well defined weaknesses and are characterized by the distinct possibility that the bank may sustain some loss if deficiencies are not corrected.

Doubtful: A Doubtful asset has all the weaknesses inherent in a Substandard asset with the added characteristics that the weaknesses make collection or liquidation in full highly questionable.



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## ZIONS BANCORPORATION AND SUBSIDIARIES

We generally assign internal grades to commercial and commercial real estate loans with commitments equal to or greater than \$500,000 based on financial/statistical models and loan officer judgment. For these larger loans, we assign one of fourteen probability of default grades (in order of declining credit quality) and one of twelve loss-given-default grades. The first ten of the fourteen probability of default grades indicate a Pass grade. The remaining four grades are: Special Mention, Substandard, Doubtful, and Loss. Loss indicates that the outstanding balance has been charged-off. We evaluate our credit quality information such as risk grades at least quarterly, or as soon as we identify information that might warrant an upgrade or downgrade. Risk grades are then updated as necessary.

For consumer loans, we generally assign internal risk grades similar to those described previously based on payment performance. These are generally assigned with either a Pass or Substandard grade and are reviewed as we identify information that might warrant an upgrade or downgrade.

Outstanding loan balances (accruing and nonaccruing) categorized by these credit quality indicators are summarized as follows:

| (In thousands)                                 | June 30, 2012 |                    |                  |          |                |                    |
|--|---------------|--------------------|------------------|----------|----------------|--------------------|
|  | Pass          | Special<br>Mention | Sub-<br>standard | Doubtful | Total<br>loans | Total<br>allowance |
| Loans held for sale                            | \$ 138,633    | \$—                | \$612            | \$—      | \$ 139,245     | \$—                |
| Commercial:                                    |               |                    |                  |          |                |                    |
| Commercial and industrial                      | \$9,750,389   | \$275,392          | \$343,102        | \$13,793 | \$10,382,676   |                    |
| Leasing  | 395,595       | 3,232              | 7,675            | —        | 406,502        |                    |
| Owner occupied                                 | 7,104,691     | 154,787            | 544,520          | 6,638    | 7,810,636      |                    |
| Municipal                                      | 465,266       | 11,402             | —                | —        | 476,668        |                    |
| Total commercial                               | 17,715,941    | 444,813            | 895,297          | 20,431   | 19,076,482     | \$616,359          |
| Commercial real estate:                        |               |                    |                  |          |                |                    |
| Construction and land development              | 1,655,632     | 162,031            | 280,118          | 1,283    | 2,099,064      |                    |
| Term   | 7,328,172     | 200,661            | 475,965          | 6,483    | 8,011,281      |                    |
| Total commercial real estate                   | 8,983,804     | 362,692            | 756,083          | 7,766    | 10,110,345     | 232,049            |
| Consumer:                                      |               |                    |                  |          |                |                    |
| Home equity credit line                        | 2,134,373     | 103                | 46,333           | 48       | 2,180,857      |                    |
| 1-4 family residential                         | 3,889,904     | 2,613              | 126,126          | 215      | 4,018,858      |                    |
| Construction and other consumer<br>real estate | 303,565       | 12,127             | 10,644           | 1,531    | 327,867        |                    |
| Bankcard and other revolving plans             | 272,140       | 3,553              | 8,419            | —        | 284,112        |                    |
| Other  | 227,976       | —                  | 4,607            | —        | 232,583        |                    |
| Total consumer loans                           | 6,827,958     | 18,396             | 196,129          | 1,794    | 7,044,277      | 102,391            |
| FDIC-supported loans                           | 409,492       | 25,297             | 207,457          | —        | 642,246        | 20,917             |
| Total  | \$33,937,195  | \$851,198          | \$2,054,966      | \$29,991 | \$36,873,350   | \$971,716          |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)                                 | December 31, 2011 |                    |                  |           |  | Total<br>loans | Total<br>allowance |
|--|-------------------|--------------------|------------------|-----------|--|----------------|--------------------|
|  | Pass              | Special<br>Mention | Sub-<br>standard | Doubtful  |  |                |                    |
| Loans held for sale                            | \$ 182,626        | \$—                | \$ 18,964        | \$—       |  | \$ 201,590     | \$—                |
| Commercial:                                    |                   |                    |                  |           |  |                |                    |
| Commercial and industrial                      | \$ 9,612,143      | \$ 271,845         | \$ 442,139       | \$ 8,731  |  | \$ 10,334,858  |                    |
| Leasing  | 362,711           | 5,878              | 11,120           | —         |  | 379,709        |                    |
| Owner occupied                                 | 7,481,207         | 184,821            | 486,584          | 5,944     |  | 8,158,556      |                    |
| Municipal                                      | 425,807           | 15,434             | —                | —         |  | 441,241        |                    |
| Total commercial                               | 17,881,868        | 477,978            | 939,843          | 14,675    |  | 19,314,364     | \$ 627,825         |
| Commercial real estate:                        |                   |                    |                  |           |  |                |                    |
| Construction and land development              | 1,647,741         | 187,323            | 426,152          | 3,693     |  | 2,264,909      |                    |
| Term   | 7,243,678         | 196,377            | 437,390          | 5,989     |  | 7,883,434      |                    |
| Total commercial real estate                   | 8,891,419         | 383,700            | 863,542          | 9,682     |  | 10,148,343     | 275,546            |
| Consumer:                                      |                   |                    |                  |           |  |                |                    |
| Home equity credit line                        | 2,136,190         | 106                | 51,089           | 43        |  | 2,187,428      |                    |
| 1-4 family residential                         | 3,788,958         | 5,736              | 126,277          | 245       |  | 3,921,216      |                    |
| Construction and other consumer<br>real estate | 274,712           | 12,206             | 16,967           | 1,988     |  | 305,873        |                    |
| Bankcard and other revolving plans             | 278,767           | 3,832              | 8,419            | —         |  | 291,018        |                    |
| Other  | 221,114           | 163                | 4,256            | 7         |  | 225,540        |                    |
| Total consumer loans                           | 6,699,741         | 22,043             | 207,008          | 2,283     |  | 6,931,075      | 123,115            |
| FDIC-supported loans                           | 499,956           | 35,877             | 215,031          | 6         |  | 750,870        | 23,472             |
| Total  | \$ 33,972,984     | \$ 919,598         | \$ 2,225,424     | \$ 26,646 |  | \$ 37,144,652  | \$ 1,049,958       |

## Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement, including scheduled interest payments. If a nonaccrual loan has a balance greater than \$1 million or if a loan is a troubled debt restructuring (“TDR”), including TDRs that subsequently default, we evaluate the loan for impairment and estimate a specific reserve for the loan for all portfolio segments under applicable accounting guidance. Smaller nonaccrual loans are pooled for ALLL estimation purposes.

When a loan is impaired, we estimate a specific reserve for the loan based on the projected present value of the loan’s future cash flows discounted at the loan’s effective interest rate, the observable market price of the loan, or the fair value of the loan’s underlying collateral less the cost to sell. The process of estimating future cash flows also incorporates the same determining factors discussed previously under nonaccrual loans. When we base the impairment amount on the fair value of the loan’s underlying collateral, we generally charge off the portion of the balance that is impaired, such that these loans do not have a specific reserve in the ALLL. Payments received on impaired loans that are accruing are recognized in interest income, according to the contractual loan agreement. Payments received on impaired loans that are on nonaccrual are not recognized in interest income, but are applied as a reduction to the principal outstanding. Payments are recognized when cash is received.

Information on impaired loans individually evaluated is summarized as follows, including the average recorded investment and interest income recognized for the three and six months ended June 30, 2012 and 2011:

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| (In thousands)                              | June 30, 2012            |                     |                |                           |                   |
|---|--------------------------|---------------------|----------------|---------------------------|-------------------|
|   | Unpaid principal balance | Recorded investment |                | Total recorded investment | Related allowance |
|   |                          | with no allowance   | with allowance |                           |                   |
| Commercial:                                 |                          |                     |                |                           |                   |
| Commercial and industrial                   | \$218,406                | \$35,361            | \$128,168      | \$163,529                 | \$23,015          |
| Owner occupied                              | 234,421                  | 102,753             | 102,469        | 205,222                   | 11,419            |
| Total commercial                            | 452,827                  | 138,114             | 230,637        | 368,751                   | 34,434            |
| Commercial real estate:                     |                          |                     |                |                           |                   |
| Construction and land development           | 277,856                  | 97,965              | 125,876        | 223,841                   | 7,932             |
| Term  | 341,484                  | 106,839             | 175,222        | 282,061                   | 16,209            |
| Total commercial real estate                | 619,340                  | 204,804             | 301,098        | 505,902                   | 24,141            |
| Consumer:                                   |                          |                     |                |                           |                   |
| Home equity credit line                     | 1,526                    | 729                 | 28             | 757                       | 1                 |
| 1-4 family residential                      | 110,449                  | 40,053              | 55,382         | 95,435                    | 11,151            |
| Construction and other consumer real estate | 9,331                    | 3,124               | 3,967          | 7,091                     | 766               |
| Bankcard and other revolving plans          | 294                      | —                   | 294            | 294                       | 124               |
| Other                                       | 2,638                    | 2,192               | —              | 2,192                     | —                 |
| Total consumer loans                        | 124,238                  | 46,098              | 59,671         | 105,769                   | 12,042            |
| FDIC-supported loans                        | 210,936                  | 39,450              | 59,165         | 98,615                    | 5,493             |
| Total                                       | \$1,407,341              | \$428,466           | \$650,571      | \$1,079,037               | \$76,110          |
| December 31, 2011                           |                          |                     |                |                           |                   |
| (In thousands)                              | Unpaid principal balance | Recorded investment |                | Total recorded investment | Related allowance |
|   |                          | with no allowance   | with allowance |                           |                   |
| Commercial:                                 |                          |                     |                |                           |                   |
| Commercial and industrial                   | \$212,263                | \$69,492            | \$66,438       | \$135,930                 | \$6,373           |
| Owner occupied                              | 258,173                  | 135,555             | 78,177         | 213,732                   | 5,083             |
| Total commercial                            | 470,436                  | 205,047             | 144,615        | 349,662                   | 11,456            |
| Commercial real estate:                     |                          |                     |                |                           |                   |
| Construction and land development           | 405,499                  | 178,113             | 136,634        | 314,747                   | 8,925             |
| Term  | 414,998                  | 187,345             | 165,930        | 353,275                   | 12,046            |
| Total commercial real estate                | 820,497                  | 365,458             | 302,564        | 668,022                   | 20,971            |
| Consumer:                                   |                          |                     |                |                           |                   |
| Home equity credit line                     | 1,955                    | 384                 | 1,469          | 1,853                     | 411               |
| 1-4 family residential                      | 116,498                  | 58,392              | 39,960         | 98,352                    | 7,555             |
| Construction and other consumer real estate | 13,340                   | 4,537               | 6,188          | 10,725                    | 1,026             |
| Bankcard and other revolving plans          | —                        | —                   | —              | —                         | —                 |
| Other                                       | 2,889                    | 2,840               | 28             | 2,868                     | 3                 |
| Total consumer loans                        | 134,682                  | 66,153              | 47,645         | 113,798                   | 8,995             |
| FDIC-supported loans                        | 353,195                  | 47,736              | 65,188         | 112,924                   | 6,642             |
| Total                                       | \$1,778,810              | \$684,394           | \$560,012      | \$1,244,406               | \$48,064          |





|       |             |          |             |          |
|-------|-------------|----------|-------------|----------|
| Total | \$1,651,008 | \$18,737 | \$1,748,916 | \$38,595 |
|-------|-------------|----------|-------------|----------|

<sup>1</sup> The balance of interest income recognized results primarily from accretion of interest income on impaired FDIC-supported loans.

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ZIONS BANCORPORATION AND SUBSIDIARIES

Modified and Restructured Loans

Loans may be modified in the normal course of business for competitive reasons or to strengthen the Company's position. Loan modifications and restructurings may also occur when the borrower experiences financial difficulty and needs temporary or permanent relief from the original contractual terms of the loan. These modifications are structured on a loan-by-loan basis, and depending on the circumstances, may include extended payment terms, a modified interest rate, forgiveness of principal, or other concessions. Loans that have been modified to accommodate a borrower who is experiencing financial difficulties, and for which the Company has granted a concession that it would not otherwise consider, are considered TDRs.

We consider many factors in determining whether to agree to a loan modification involving concessions, and seek a solution that will both minimize potential loss to the Company and attempt to help the borrower. We evaluate borrowers' current and forecasted future cash flows, their ability and willingness to make current contractual or proposed modified payments, the value of the underlying collateral (if applicable), the possibility of obtaining additional security or guarantees, and the potential costs related to a repossession or foreclosure and the subsequent sale of the collateral.

TDRs are classified as either accrual or nonaccrual loans. A loan on nonaccrual and restructured as a TDR will remain on nonaccrual status until the borrower has proven the ability to perform under the modified structure for a minimum of six months, and there is evidence that such payments can and are likely to continue as agreed. Performance prior to the restructuring, or significant events that coincide with the restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual at the time of restructuring or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan. A TDR loan that specifies an interest rate that at the time of the restructuring is greater than or equal to the rate the bank is willing to accept for a new loan with comparable risk may not be reported as a TDR or an impaired loan in the calendar years subsequent to the restructuring if it is in compliance with its modified terms.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

Selected information on TDRs that includes the recorded investment on an accruing and nonaccruing basis by loan class and modification type is summarized in the following table. This information reflects all TDRs at June 30, 2012 and December 31, 2011:

| (In thousands)                              | June 30, 2012  |                            |                       |                  |                    |  |          |
|---|--|----------------------------|-----------------------|------------------|--------------------|--|----------|
|   | Recorded investment resulting from the following modification types: |                            |                       |                  |                    |  |          |
|   | Interest rate below market   | Maturity or term extension | Principal forgiveness | Payment deferral | Other <sup>1</sup> | Multiple modification types <sup>2</sup> | Total    |
| <b>Accruing</b>                             |  |                            |                       |                  |                    |  |          |
| <b>Commercial:</b>                          |  |                            |                       |                  |                    |  |          |
| Commercial and industrial                   | \$280  | \$5,382                    | \$—                   | \$3,846          | \$27,194           | \$19,608                                 | \$56,310 |
| Owner occupied                              | 1,316  | 15,230                     | —                     | 5,704            | 4,542              | 13,401                                   | 40,193   |
| Total commercial                            | 1,596  | 20,612                     | —                     | 9,550            | 31,736             | 33,009                                   | 96,503   |
| <b>Commercial real estate:</b>              |  |                            |                       |                  |                    |  |          |
| Construction and land development           | 1,745  | 26,539                     | 7                     | 59               | 37,078             | 47,928                                   | 113,356  |
| Term  | 1,950  | 1,882                      | 2,990                 | 2,208            | 27,541             | 88,515                                   | 125,086  |
| Total commercial real estate                | 3,695  | 28,421                     | 2,997                 | 2,267            | 64,619             | 136,443                                  | 238,442  |
| <b>Consumer:</b>                            |  |                            |                       |                  |                    |  |          |
| Home equity credit line                     | 194  | —                          | —                     | —                | —                  | 90                                       | 284      |
| 1-4 family residential                      | 6,174  | 6,936                      | 1,059                 | —                | 3,526              | 37,867                                   | 55,562   |
| Construction and other consumer real estate | 156  | 472                        | —                     | —                | 652                | 1,289                                    | 2,569    |
| Total consumer loans                        | 6,524  | 7,408                      | 1,059                 | —                | 4,178              | 39,246                                   | 58,415   |
| Total accruing                              | 11,815   | 56,441                     | 4,056                 | 11,817           | 100,533            | 208,698                                  | 393,360  |
| <b>Nonaccruing</b>                          |  |                            |                       |                  |                    |  |          |
| <b>Commercial:</b>                          |  |                            |                       |                  |                    |  |          |
| Commercial and industrial                   | 339  | 5,700                      | 2,643                 | 526              | 15,600             | 12,847                                   | 37,655   |
| Owner occupied                              | 5,142  | 1,141                      | 684                   | 8,888            | 9,994              | 14,708                                   | 40,557   |
| Total commercial                            | 5,481  | 6,841                      | 3,327                 | 9,414            | 25,594             | 27,555                                   | 78,212   |
| <b>Commercial real estate:</b>              |  |                            |                       |                  |                    |  |          |
| Construction and land development           | 16,382   | 2,487                      | —                     | —                | 8,194              | 43,426                                   | 70,489   |
| Term  | 4,414  | 37                         | —                     | 2,484            | 11,586             | 38,780                                   | 57,301   |
| Total commercial real estate                | 20,796   | 2,524                      | —                     | 2,484            | 19,780             | 82,206                                   | 127,790  |
| <b>Consumer:</b>                            |  |                            |                       |                  |                    |  |          |
| Home equity credit line                     | —  | —                          | —                     | —                | —                  | 128                                      | 128      |
| 1-4 family residential                      | 1,145  | 48                         | 311                   | —                | 848                | 15,469                                   | 17,821   |
| Construction and other consumer real estate | 12   | 1,931                      | —                     | —                | —                  | 1,380                                    | 3,323    |
| Bankcard and other revolving plans          | —  | 294                        | —                     | —                | —                  | —  | 294      |
| Total consumer loans                        | 1,157  | 2,273                      | 311                   | —                | 848                | 16,977                                   | 21,566   |



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|                   |          |          |         |          |           |           |           |
|-------------------|----------|----------|---------|----------|-----------|-----------|-----------|
| Total nonaccruing | 27,434   | 11,638   | 3,638   | 11,898   | 46,222    | 126,738   | 227,568   |
| Total             | \$39,249 | \$68,079 | \$7,694 | \$23,715 | \$146,755 | \$335,436 | \$620,928 |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)                              | December 31, 2011  |                            |                       |                  |                    |  |                  |
|---|--|----------------------------|-----------------------|------------------|--------------------|--|------------------|
|   | Recorded investment resulting from the following modification types: |                            |                       |                  |                    |  |                  |
|   | Interest rate below market   | Maturity or term extension | Principal forgiveness | Payment deferral | Other <sup>1</sup> | Multiple modification types <sup>2</sup> | Total            |
| <b>Accruing</b>                             |  |                            |                       |                  |                    |  |                  |
| <b>Commercial:</b>                          |  |                            |                       |                  |                    |  |                  |
| Commercial and industrial                   | \$302  | \$7,727                    | \$—                   | \$1,955          | \$27,370           | \$4,517                                  | \$41,871         |
| Owner occupied                              | 1,875  | 15,224                     | 37                    | 1,008            | 5,504              | 20,449                                   | 44,097           |
| Total commercial                            | 2,177  | 22,951                     | 37                    | 2,963            | 32,874             | 24,966                                   | 85,968           |
| <b>Commercial real estate:</b>              |  |                            |                       |                  |                    |  |                  |
| Construction and land development           | 644  | 33,284                     | 565                   | —                | 28,911             | 34,862                                   | 98,266           |
| Term  | 2,738  | 33,885                     | 3,027                 | 23,640           | 54,031             | 95,868                                   | 213,189          |
| Total commercial real estate                | 3,382  | 67,169                     | 3,592                 | 23,640           | 82,942             | 130,730                                  | 311,455          |
| <b>Consumer:</b>                            |  |                            |                       |                  |                    |  |                  |
| Home equity credit line                     | —  | —                          | —                     | —                | 32                 | —  | 32               |
| 1-4 family residential                      | 3,270  | 1,663                      | 525                   | —                | 6,103              | 34,839                                   | 46,400           |
| Construction and other consumer real estate | 166  | 1,444                      | —                     | —                | 635                | 1,981                                    | 4,226            |
| Other                                       | —  | 28                         | —                     | —                | —                  | —  | 28               |
| Total consumer loans                        | 3,436  | 3,135                      | 525                   | —                | 6,770              | 36,820                                   | 50,686           |
| Total accruing                              | 8,995  | 93,255                     | 4,154                 | 26,603           | 122,586            | 192,516                                  | 448,109          |
| <b>Nonaccruing</b>                          |  |                            |                       |                  |                    |  |                  |
| <b>Commercial:</b>                          |  |                            |                       |                  |                    |  |                  |
| Commercial and industrial                   | 3,526  | 6,094                      | —                     | 1,429            | 8,384              | 10,202                                   | 29,635           |
| Owner occupied                              | 4,464  | 1,101                      | 715                   | 6,575            | 17,070             | 10,300                                   | 40,225           |
| Total commercial                            | 7,990  | 7,195                      | 715                   | 8,004            | 25,454             | 20,502                                   | 69,860           |
| <b>Commercial real estate:</b>              |  |                            |                       |                  |                    |  |                  |
| Construction and land development           | 15,088   | 3,348                      | 19                    | 2,060            | 7,441              | 94,502                                   | 122,458          |
| Term  | 3,445  | 50                         | —                     | 4,250            | 4,724              | 65,316                                   | 77,785           |
| Total commercial real estate                | 18,533   | 3,398                      | 19                    | 6,310            | 12,165             | 159,818                                  | 200,243          |
| <b>Consumer:</b>                            |  |                            |                       |                  |                    |  |                  |
| Home equity credit line                     | 195  | —                          | —                     | —                | 253                | 69                                       | 517              |
| 1-4 family residential                      | 1,386  | 85                         | 939                   | 718              | 1,391              | 18,476                                   | 22,995           |
| Construction and other consumer real estate | 18   | 1,837                      | —                     | —                | —                  | 355                                      | 2,210            |
| Total consumer loans                        | 1,599  | 1,922                      | 939                   | 718              | 1,644              | 18,900                                   | 25,722           |
| Total nonaccruing                           | 28,122   | 12,515                     | 1,673                 | 15,032           | 39,263             | 199,220                                  | 295,825          |
| <b>Total</b>                                | <b>\$37,117</b>  | <b>\$105,770</b>           | <b>\$5,827</b>        | <b>\$41,635</b>  | <b>\$161,849</b>   | <b>\$391,736</b>                         | <b>\$743,934</b> |

<sup>1</sup> Includes TDRs that resulted from other modification types including, but not limited to, a legal judgment awarded on different terms, a bankruptcy plan confirmed on different terms, a settlement that includes the delivery of collateral in exchange for debt reduction, etc.

<sup>2</sup> Includes TDRs that resulted from a combination of any of the previous modification types.

Unused commitments to extend credit on TDRs amounted to approximately \$14 million at June 30, 2012 and \$9 million at December 31, 2011.

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The total recorded investment of all TDRs in which interest rates were modified below market was \$185.3 million at June 30, 2012 and \$269.9 million at December 31, 2011. These loans are included in the previous table in the columns for interest rate below market and multiple modification types.

The net financial impact on interest income due to interest rate modifications below market for accruing TDRs is summarized in the following schedule:

| (In thousands)                              | Three Months<br>Ended<br>June 30, 2012 | Six Months<br>Ended<br>June 30, 2012 | Year Ended<br>December 31, 2011 |
|---|--|--------------------------------------|---------------------------------|
| Commercial:                                 |  |                                      |                                 |
| Commercial and industrial                   | \$(8 )                                 | \$(23 )                              | \$(46 )                         |
| Owner occupied                              | (329 )                                 | (705 )                               | (1,650 )                        |
| Total commercial                            | (337 )                                 | (728 )                               | (1,696 )                        |
| Commercial real estate:                     |  |                                      |                                 |
| Construction and land development           | (236 )                                 | (469 )                               | (244 )                          |
| Term  | (1,473 )                               | (3,026 )                             | (7,096 )                        |
| Total commercial real estate                | (1,709 )                               | (3,495 )                             | (7,340 )                        |
| Consumer:                                   |  |                                      |                                 |
| Home equity credit line                     | (19 )                                  | (34 )                                | —                               |
| 1-4 family residential                      | (3,992 )                               | (7,841 )                             | (10,188 )                       |
| Construction and other consumer real estate | (107 )                                 | (215 )                               | (406 )                          |
| Total consumer loans                        | (4,118 )                               | (8,090 )                             | (10,594 )                       |
| Total decrease to interest income           | \$(6,164 ) <sup>1</sup>                | \$(12,313 ) <sup>1</sup>             | \$(19,630 ) <sup>1</sup>        |

<sup>1</sup>Calculated based on the difference between the modified rate and the premodified rate applied to the recorded investment.

On an ongoing basis, we monitor the performance of all TDRs according to their restructured terms. Subsequent payment default is defined in terms of delinquency, when principal or interest payments are past due 90 days or more for commercial loans, or 60 days or more for consumer loans.

As of June 30, 2012, the recorded investment of accruing and nonaccruing TDRs that had a payment default during the period listed below (and are still in default at period-end) and are within 12 months or less of being modified as TDRs is as follows:

| (In thousands)                    | Three Months Ended<br>June 30, 2012 |             |        | Six Months Ended<br>June 30, 2012 |             |          | Year Ended<br>December 31, 2011 |             |          |
|-----------------------------------|-------------------------------------|-------------|--------|-----------------------------------|-------------|----------|---------------------------------|-------------|----------|
|                                   | Accruing                            | Nonaccruing | Total  | Accruing                          | Nonaccruing | Total    | Accruing                        | Nonaccruing | Total    |
| Commercial:                       |                                     |             |        |                                   |             |          |                                 |             |          |
| Commercial and industrial         | \$—                                 | \$ 114      | \$ 114 | \$—                               | \$ 1,291    | \$ 1,291 | \$ 35                           | \$ 1,700    | \$ 1,735 |
| Owner occupied                    | —                                   | 5,405       | 5,405  | —                                 | 5,405       | 5,405    | —                               | 441         | 441      |
| Total commercial                  | —                                   | 5,519       | 5,519  | —                                 | 6,696       | 6,696    | 35                              | 2,141       | 2,176    |
| Commercial real estate:           |                                     |             |        |                                   |             |          |                                 |             |          |
| Construction and land development | —                                   | 2,765       | 2,765  | —                                 | 2,765       | 2,765    | —                               | 11,667      | 11,667   |
| Term                              | —                                   | —           | —      | —                                 | 1,466       | 1,466    | —                               | 5,971       | 5,971    |
| Total commercial real estate      | —                                   | 2,765       | 2,765  | —                                 | 4,231       | 4,231    | —                               | 17,638      | 17,638   |

Consumer:

|                        |     |          |         |     |           |          |      |           |          |
|------------------------|-----|----------|---------|-----|-----------|----------|------|-----------|----------|
| 1-4 family residential | —   | —        | —       | —   | 526       | 526      | —    | 2,745     | 2,745    |
| Total consumer loans   | —   | —        | —       | —   | 526       | 526      | —    | 2,745     | 2,745    |
| Total                  | \$— | \$ 8,284 | \$8,284 | \$— | \$ 11,453 | \$11,453 | \$35 | \$ 22,524 | \$22,559 |

Note: Total loans modified as TDRs during the 12 months previous to June 30, 2012 were \$219.5 million.

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## Concentrations of Credit Risk

We perform an ongoing analysis of our loan portfolio to evaluate whether there is any significant exposure to any concentrations of credit risk. These potential concentrations include, but are not limited to, individual borrowers, groups of borrowers, industries, geographies, collateral types, sponsors, etc. Such credit risks (whether on- or off-balance sheet) may occur when groups of borrowers or counterparties have similar economic characteristics and are similarly affected by changes in economic or other conditions. Credit risk also includes the loss that would be recognized subsequent to the reporting date if counterparties failed to perform as contracted. Our analysis as of June 30, 2012 concluded that no significant exposure exists from such credit risk concentrations. See Note 6 for a discussion of counterparty risk associated with the Company's derivative transactions.

## Purchased Loans

## Background and Accounting

We purchase loans in the ordinary course of business and account for them and the related interest income based on their performing status at the time of acquisition. Purchased credit-impaired ("PCI") loans have evidence of credit deterioration at the time of acquisition and it is probable that not all contractual payments will be collected. Interest income for PCI loans is accounted for on an expected cash flow basis. Certain other loans acquired by the Company that are not credit-impaired include loans with revolving privileges and are excluded from the PCI tabular disclosures following. Interest income for these loans is accounted for on a contractual cash flow basis. Certain acquired loans with similar characteristics such as risk exposure, type, size, etc., are grouped and accounted for in loan pools. CB&T and NSB acquired failed banks from the FDIC as receiver and entered into loss sharing agreements with the FDIC for the acquired loans and foreclosed assets. The FDIC assumes 80% of credit losses up to a threshold specified for each acquisition and 95% above the threshold for a period of up to ten years. The loans acquired from the FDIC are presented separately in the Company's balance sheet as "FDIC-supported loans" and include both PCI and certain other acquired loans.

During the first quarter of 2011, certain FDIC-supported loans charged off at the time of acquisition were determined to be covered by the FDIC loss sharing agreement. The FDIC remitted \$18.9 million to the Company, which was recognized in other noninterest income.

Upon acquisition, in accordance with applicable accounting guidance, the acquired loans were recorded at their fair value without a corresponding ALLL. The acquired foreclosed assets and subsequent real estate foreclosures were included with other real estate owned ("OREO") in the balance sheet and amounted to \$19.7 million at June 30, 2012 and \$24.3 million at December 31, 2011.

## Outstanding Balances and Accrutable Yield

The outstanding balances of all required payments and the related carrying amounts for PCI loans are as follows:

| (In thousands)         | June 30,<br>2012 | December 31,<br>2011 |
|------------------------|------------------|----------------------|
| Commercial             | \$274,629        | \$321,515            |
| Commercial real estate | 453,394          | 556,197              |
| Consumer               | 47,597           | 57,391               |
| Outstanding balance    | \$775,620        | \$935,103            |
| Carrying amount        | \$578,845        | \$672,159            |
| ALLL                   | 19,776           | 21,604               |
| Carrying amount, net   | \$559,069        | \$650,555            |

At the time of acquisition of PCI loans, we determine the loan's contractually required payments in excess of all cash flows expected to be collected as an amount that should not be accreted (nonaccretable difference). With respect to the cash flows expected to be collected, the portion representing the excess of the loan's expected cash flows over our initial investment (accretable yield) is accreted into interest income on a level yield basis over the remaining expected life of the loan or pool of loans. The effects of estimated prepayments are considered in estimating the expected cash flows.

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Certain PCI loans are not accounted for as previously described because the estimation of cash flows to be collected involves a high degree of uncertainty. Under these circumstances, the accounting guidance provides that interest income is recognized on a cash basis similar to the cost recovery methodology for nonaccrual loans. The net carrying amounts in the preceding schedule also include the amounts for these loans, which were approximately \$39.7 million at June 30, 2012 and \$42.6 million at December 31, 2011.

Changes in the accretable yield for PCI loans were as follows:

| (In thousands)                                 | Three Months Ended |            | Six Months Ended |            |
|--|--------------------|------------|------------------|------------|
|  | June 30,<br>2012   | 2011       | June 30,<br>2012 | 2011       |
| Balance at beginning of period                 | \$ 174,004         | \$ 271,736 | \$ 184,679       | \$ 277,005 |
| Accretion                                      | (22,882 )          | (31,247 )  | (44,415 )        | (62,690 )  |
| Reclassification from nonaccretable difference | 1,678              | 2,520      | 15,547           | 25,912     |
| Disposals and other                            | 4,240              | (810 )     | 1,229            | 1,972      |
| Balance at end of period                       | \$ 157,040         | \$ 242,199 | \$ 157,040       | \$ 242,199 |

Note: Amounts have been adjusted based on refinements to the original estimates of the accretable yield. Because of the estimation process required, we expect that additional adjustments to these amounts may be necessary in future periods.

The primary driver of reclassifications to accretable yield from nonaccretable difference resulted from changes in estimated cash flows for the acquired loans and loan pools, as discussed subsequently under changes in cash flow estimates.

**ALLL Determination**

For all acquired loans, the ALLL is only established for credit deterioration subsequent to the date of acquisition and represents our estimate of the inherent losses in excess of the book value of acquired loans. The ALLL for acquired loans is determined without giving consideration to the amounts recoverable from the FDIC through loss sharing agreements. These amounts recoverable are separately accounted for in the FDIC indemnification asset ("IA") and are thus presented "gross" in the balance sheet. The FDIC IA is included in other assets in the balance sheet and is discussed subsequently. The ALLL is included in the overall ALLL in the balance sheet. The provision for loan losses is reported net of changes in the amounts recoverable under the loss sharing agreements.

During the three and six months ended June 30, we adjusted the ALLL for acquired loans by recording a (decrease) increase on an adjusted gross basis to the provision for loan losses of \$(6.9) million and \$(7.3) million in 2012, and \$2.9 million and \$0.3 million in 2011, respectively. These amounts are net of the ALLL reversals due to increases in estimated cash flows which are discussed subsequently. As separately discussed and in accordance with the loss sharing agreements, portions of the increases to the provision are recoverable from the FDIC and comprise part of the FDIC IA. For the three and six months ended June 30, 2012, these adjustments, before FDIC indemnification, resulted in net recoveries of \$7.8 million and \$6.7 million, respectively. For the three and six months ended June 30, 2011, they resulted in net charge-offs of \$2.5 million and \$10.5 million, respectively.

Changes in the provision for loan losses and related ALLL are driven in large part by the same factors that affect the changes in reclassification from nonaccretable difference to accretable yield, as discussed under changes in cash flow estimates.

**Changes in Cash Flow Estimates**

Over the life of the loan or loan pool, we continue to estimate cash flows expected to be collected. We evaluate quarterly at the balance sheet date whether the estimated present values of these loans using the effective interest rates have decreased below their carrying values. If so, we record a provision for loan losses.



For increases in carrying values that resulted from better-than-expected cash flows, we use such increases first to reverse any existing ALLL. During the three and six months ended June 30, total reversals to the ALLL, including the impact of increases in estimated cash flows, were \$7.9 million and \$10.6 million in 2012, and \$4.8 million and \$9.0 million in 2011, respectively. When there is no current ALLL, we increase the amount of accretable yield on a prospective basis over the remaining life of the loan and recognize this increase in interest income. Any related decrease to the FDIC IA is recorded through a charge to other noninterest expense. Changes that increase cash flows have been due primarily to (1) the enhanced economic status of borrowers compared to original evaluations, (2) improvements in the Southern California market where the majority of these

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loans were originated, and (3) stronger efforts by our credit officers and loan workout professionals to resolve problem loans.

For the three and six months ended June 30, the impact of increased cash flow estimates recognized in the statement of income for acquired loans with no ALLL was approximately \$14.8 million and \$27.9 million in 2012, and \$21.5 million and \$40.7 million in 2011, respectively, of additional interest income, and \$11.2 million and \$21.2 million in 2012, and \$15.0 million and \$28.1 million in 2011, respectively, of additional other noninterest expense due to the reduction of the FDIC IA.

## FDIC Indemnification Asset

The amount of the FDIC IA was initially recorded at fair value using estimated cash flows based on credit adjustments for each loan or loan pool and the loss sharing reimbursement of 80% or 95%, as appropriate. The timing of the cash flows was adjusted to reflect our expectations to receive the FDIC reimbursements within the estimated loss period. Discount rates were based on U.S. Treasury rates or the AAA composite yield on investment grade bonds of similar maturity. As previously discussed, the amount is adjusted as actual loss experience is developed and estimated losses covered under the loss sharing agreements are updated. Estimated loan losses, if any, in excess of the amounts recoverable are reflected as period expenses through the provision for loan losses.

Changes in the FDIC IA were as follows:

| (In thousands)   | Three Months Ended |           | Six Months Ended |           |
|--|--------------------|-----------|------------------|-----------|
|  | June 30,<br>2012   | 2011      | June 30,<br>2012 | 2011      |
| Balance at beginning of period   | \$121,332          | \$172,170 | \$133,810        | \$195,516 |
| Amounts filed with the FDIC and collected or in process                              | 12,495             | (6,404 )  | 11,202           | (12,911 ) |
| Net change in asset balance due to reestimation of projected cash flows <sup>1</sup> | (16,660 )          | (15,209 ) | (27,845 )        | (32,048 ) |
| Balance at end of period   | \$117,167          | \$150,557 | \$117,167        | \$150,557 |

Note: Beginning in the latter half of 2011, the FDIC changed its reimbursement process to require that submitted expenses must be paid, not just incurred, to qualify for reimbursement.

<sup>1</sup>Negative amounts result from the accretion of loan balances based on increases in cash flow estimates on the underlying indemnified loans.

Any changes to the FDIC IA are recognized immediately in the quarterly period the change in estimated cash flows is determined. All claims submitted to the FDIC have been reimbursed in a timely manner.

## 6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We record all derivatives on the balance sheet at fair value. Note 9 discusses the process to estimate fair value for derivatives. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives used to manage the exposure to credit risk, which can include total return swaps, are considered credit derivatives. When put in place after purchase of the asset(s) to be protected, these derivatives generally may not be designated as accounting hedges. See discussion following regarding the total return swap and estimation of its fair value.

For derivatives designated as fair value hedges, changes in the fair value of the derivative are recognized in earnings together with changes in the fair value of the related hedged item. The net amount, if any, representing hedge ineffectiveness, is reflected in earnings. In previous periods, we used fair value hedges to manage interest rate exposure to certain long-term debt. These hedges have been terminated and their remaining balances are being amortized into earnings, as discussed subsequently.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative are recorded in OCI and recognized in earnings when the hedged transaction affects earnings. The ineffective portion of changes in the fair value of cash flow hedges is recognized directly in earnings.

No derivatives have been designated for hedges of investments in foreign operations.

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We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows on the derivative hedging instrument with the changes in fair value or cash flows on the designated hedged item or transaction. For derivatives not designated as accounting hedges, changes in fair value are recognized in earnings. Our objectives in using derivatives are to add stability to interest income or expense, to modify the duration of specific assets or liabilities as we consider advisable, to manage exposure to interest rate movements or other identified risks, and/or to directly offset derivatives sold to our customers. To accomplish these objectives, we use interest rate swaps as part of our cash flow hedging strategy. These derivatives are used to hedge the variable cash flows associated with designated commercial loans.

Exposure to credit risk arises from the possibility of nonperformance by counterparties. These counterparties primarily consist of financial institutions that are well established and well capitalized. We control this credit risk through credit approvals, limits, pledges of collateral, and monitoring procedures. No losses on derivative instruments have occurred as a result of counterparty nonperformance. Nevertheless, the related credit risk is considered and measured when and where appropriate.

Interest rate swap agreements designated as cash flow hedges involve the receipt of fixed-rate amounts in exchange for variable-rate payments over the life of the agreements without exchange of the underlying principal amount. Derivatives not designated as accounting hedges, including basis swap agreements, are not speculative and are used to economically manage our exposure to interest rate movements and other identified risks, but do not meet the strict hedge accounting requirements.

Selected information with respect to notional amounts and recorded gross fair values at June 30, 2012 and December 31, 2011, and the related gain (loss) of derivative instruments for the three and six months ended June 30, 2012 and 2011 is summarized as follows:

| (In thousands)  | June 30, 2012   |                            |                   | December 31, 2011 |                            |                   |
|---|-----------------|----------------------------|-------------------|-------------------|----------------------------|-------------------|
|   | Notional amount | Fair value<br>Other assets | Other liabilities | Notional amount   | Fair value<br>Other assets | Other liabilities |
| Derivatives designated as hedging instruments           |                 |                            |                   |                   |                            |                   |
| Asset derivatives                                       |                 |                            |                   |                   |                            |                   |
| Cash flow hedges <sup>1</sup> :                         |                 |                            |                   |                   |                            |                   |
| Interest rate swaps                                     | \$ 150,000      | \$ 3,617                   | \$—               | \$ 335,000        | \$ 7,341                   | \$—               |
| Total derivatives designated as hedging instruments     | 150,000         | 3,617                      | —                 | 335,000           | 7,341                      | —                 |
| Derivatives not designated as hedging instruments       |                 |                            |                   |                   |                            |                   |
| Interest rate swaps                                     | 120,238         | 1,463                      | 1,474             | 145,388           | 1,952                      | 1,977             |
| Interest rate swaps for customers <sup>2</sup>          | 2,463,149       | 83,319                     | 88,196            | 2,638,601         | 82,648                     | 87,363            |
| Basis swaps   | —               | —                          | —                 | 85,000            | 3                          | 11                |
| Options contracts                                       | —               | —                          | —                 | 1,700,000         | 11                         | —                 |
| Total return swap                                       | 1,159,686       | —                          | 5,337             | 1,159,686         | —                          | 5,422             |
| Total derivatives not designated as hedging instruments | 3,743,073       | 84,782                     | 95,007            | 5,728,675         | 84,614                     | 94,773            |
| Total derivatives                                       | \$ 3,893,073    | \$ 88,399                  | \$ 95,007         | \$ 6,063,675      | \$ 91,955                  | \$ 94,773         |



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| (In thousands)  | Three Months Ended June 30, 2012                         |   |                              |                            | Six Months Ended June 30, 2012 |   |                              |                            |
|---|--|---|------------------------------|----------------------------|--------------------------------|---|------------------------------|----------------------------|
|   | Amount of derivative gain (loss) recognized/reclassified |   |                              |                            |                                |   |                              |                            |
|   | OCI  | Reclassified from AOCI to interest income | Noninterest income (expense) | Offset to interest expense | OCI                            | Reclassified from AOCI to interest income | Noninterest income (expense) | Offset to interest expense |
| Derivatives designated as hedging instruments           |  |   |                              |                            |                                |   |                              |                            |
| Asset derivatives                                       |  |   |                              |                            |                                |   |                              |                            |
| Cash flow hedges <sup>1</sup> :                         |  |   |                              |                            |                                |   |                              |                            |
| Interest rate swaps                                     | \$95   | \$3,199                                   | \$—                          |                            | \$306                          | \$ 8,493                                  | \$—                          |                            |
|   | 95   | 3,199                                     | —                            |                            | 306                            | 8,493                                     | <sup>3</sup> —               |                            |
| Liability derivatives                                   |  |   |                              |                            |                                |   |                              |                            |
| Fair value hedges:                                      |  |   |                              |                            |                                |   |                              |                            |
| Terminated swaps on long-term debt                      |  |   |                              | \$756                      |                                |   |                              | \$1,506                    |
| Total derivatives designated as hedging instruments     | 95   | 3,199                                     | —                            | 756                        | 306                            | 8,493                                     | —                            | 1,506                      |
| Derivatives not designated as hedging instruments       |  |   |                              |                            |                                |   |                              |                            |
| Interest rate swaps                                     |  |   | 4                            |                            |                                |   | (128 )                       |                            |
| Interest rate swaps for customers <sup>2</sup>          |  |   | (804 )                       |                            |                                |   | 586                          |                            |
| Basis swaps   |  |   | —                            |                            |                                |   | 18                           |                            |
| Futures contracts                                       |  |   | 14                           |                            |                                |   | (10 )                        |                            |
| Total return swap                                       |  |   | (5,450 )                     |                            |                                |   | (10,900 )                    |                            |
| Total derivatives not designated as hedging instruments |  |   | (6,236 )                     |                            |                                |   | (10,434 )                    |                            |
| Total derivatives                                       | \$95   | \$3,199                                   | \$(6,236 )                   | \$756                      | \$306                          | \$ 8,493                                  | \$(10,434 )                  | \$1,506                    |

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| (In thousands)  | Three Months Ended June 30, 2011                         |   |                              |                            | Six Months Ended June 30, 2011 |   |                              |                            |
|---|--|---|------------------------------|----------------------------|--------------------------------|---|------------------------------|----------------------------|
|   | Amount of derivative gain (loss) recognized/reclassified |   |                              |                            |                                |   |                              |                            |
|   | OCI  | Reclassified from AOCI to interest income | Noninterest income (expense) | Offset to interest expense | OCI                            | Reclassified from AOCI to interest income | Noninterest income (expense) | Offset to interest expense |
| Derivatives designated as hedging instruments           |  |   |                              |                            |                                |   |                              |                            |
| Asset derivatives                                       |  |   |                              |                            |                                |   |                              |                            |
| Cash flow hedges <sup>1</sup> :                         |  |   |                              |                            |                                |   |                              |                            |
| Interest rate swaps                                     | \$1,474  | \$8,979                                   | \$—                          |                            | \$1,492                        | \$21,419                                  | \$—                          |                            |
| Interest rate floors                                    | 179  | 889                                       | —                            |                            | 183                            | 1,686                                     | —                            |                            |
|   | 1,653  | 9,868                                     | —                            |                            | 1,675                          | 23,105                                    | <sup>3</sup> —               |                            |
| Liability derivatives                                   |  |   |                              |                            |                                |   |                              |                            |
| Fair value hedges:                                      |  |   |                              |                            |                                |   |                              |                            |
| Terminated swaps on long-term debt                      |  |   |                              | \$732                      |                                |   |                              | \$1,451                    |
| Total derivatives designated as hedging instruments     | 1,653  | 9,868                                     | —                            | 732                        | 1,675                          | 23,105                                    | —                            | 1,451                      |
| Derivatives not designated as hedging instruments       |  |   |                              |                            |                                |   |                              |                            |
| Interest rate swaps                                     |  |   | (13)                         | )                          |                                |   | (76)                         | )                          |
| Interest rate swaps for customers <sup>2</sup>          |  |   | (205)                        | )                          |                                |   | 1,327                        |                            |
| Energy commodity swaps for customers <sup>2</sup>       |  |   | —                            |                            |                                |   | 56                           |                            |
| Basis swaps   |  |   | 62                           |                            |                                |   | 149                          |                            |
| Futures contracts                                       |  |   | 5,537                        |                            |                                |   | 4,778                        |                            |
| Options contracts                                       |  |   | (521)                        | )                          |                                |   | 502                          |                            |
| Total derivatives not designated as hedging instruments |  |   | 4,860                        |                            |                                |   | 6,736                        |                            |
| Total derivatives                                       | \$1,653  | \$9,868                                   | \$4,860                      | \$732                      | \$1,675                        | \$23,105                                  | \$6,736                      | \$1,451                    |

Note: These tables are not intended to present at any given time the Company's long/short position with respect to its derivative contracts.

<sup>1</sup> Amounts recognized in OCI and reclassified from accumulated OCI ("AOCI") represent the effective portion of the derivative gain (loss).

<sup>2</sup> Amounts include both the customer swaps and the offsetting derivative contracts.

<sup>3</sup> Amounts for the six months ended June 30, 2012 and 2011 of \$8,493 and \$23,105, respectively, are the amounts of reclassification to earnings presented in the tabular changes of AOCI in Note 7.

At June 30, the fair values of derivative assets and liabilities were reduced (increased) by net credit valuation adjustments of \$5.0 million and \$0.1 million in 2012, and \$3.2 million and \$(0.4) million in 2011, respectively. These adjustments are required to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk.

Fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) have been offset against recognized fair value amounts of derivatives executed with the same counterparty under a master netting arrangement. In the balance sheet, cash collateral was used to reduce recorded amounts of derivative liabilities by \$1.1 million and \$2.4 million at June 30, 2012 and 2011, respectively.

We offer to our customers interest rate swaps to assist them in managing their exposure to fluctuating interest rates. Previously, we also offered energy commodity swaps. Upon issuance, all of these customer swaps are immediately “hedged” by offsetting derivative contracts, such that the Company minimizes its net risk exposure resulting from such transactions. Fee income from customer swaps is included in other service charges, commissions and fees. As with other derivative instruments, we have credit risk for any nonperformance by counterparties.



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Options contracts were used to economically hedge certain interest rate exposures of previously used Eurodollar futures contracts. All of these contracts expired during the first quarter of 2012.

The remaining balances of any derivative instruments terminated prior to maturity, including amounts in AOCI for swap hedges, are accreted or amortized to interest income or expense over the period to their previously stated maturity dates.

Amounts in AOCI are reclassified to interest income as interest is earned on variable rate loans and as amounts for terminated hedges are accreted or amortized to earnings. For the 12 months following June 30, 2012, we estimate that an additional \$7 million will be reclassified.

Total Return Swap

On July 28, 2010, we entered into a total return swap and related interest rate swaps (“TRS”) with Deutsche Bank AG (“DB”) relating to a portfolio of \$1.16 billion notional amount of our bank and insurance trust preferred CDOs. As a result of the TRS, DB assumed all of the credit risk of this CDO portfolio, providing timely payment of all scheduled payments of interest and principal when contractually due to the Company (without regard to acceleration or deferral events). The transaction reduced regulatory risk-weighted assets and improved the Company’s risk-based capital ratios. The transaction did not qualify for hedge accounting and did not change the accounting for the underlying securities, including the quarterly analysis of OTTI and OCI. As a result, future potential OTTI, if any, associated with the underlying securities may not be offset by any valuation adjustment on the swap in the quarter in which OTTI is recognized, and OTTI changes could result in reductions in our regulatory capital ratios, which could be material. The fair value of the TRS derivative liability was \$5.3 million at June 30, 2012 and \$5.4 million at December 31, 2011.

Both the fair values of the securities and the fair value of the TRS are dependent upon the projected credit-adjusted cash flows of the securities. The period that we are unable to cancel the transaction has shortened to and will remain at one calendar quarter. Accordingly, absent major changes in these projected cash flows, we expect the value of the TRS liability to continue to approximate its June 30, 2012 fair value. We expect to incur subsequent net quarterly costs of approximately \$5.4 million under the TRS, including related interest rate swaps and scheduled payments of interest on the underlying CDOs, as long as the TRS remains in place for this CDO portfolio. Our estimated quarterly expense amount would be impacted by, among other things, changes in the composition of the CDO portfolio included in the transaction and changes over time in the forward London Interbank Offered Rate (“LIBOR”) rate curve. The Company’s costs are also subject to adjustment in the event of future changes in regulatory requirements applicable to DB if we do not then elect to terminate the transaction. Termination by the Company for such regulatory changes applicable to DB will result in no payment by the Company.

At June 30, 2012, we completed a valuation process which resulted in an estimated fair value for the TRS under Level 3. The process utilized valuation inputs from two sources:

The Company built on its fair valuation process for the underlying CDO portfolio and utilized those same projected cash flows to quantify the extent and timing of payments to be received from the Trustee related to each CDO and 1) in the aggregate. For valuation purposes, we assumed that a market participant would cancel the TRS at the first opportunity if the TRS did not have a positive value based on the best estimates of cash flows through maturity. Consequently, the fair value approximated the amount of required payments up to the earliest termination date.

2) A valuation from a market participant in possession of all relevant terms and costs of the TRS structure.

We considered the observable input or inputs from the market participant, who is the counterparty to this transaction, as well as the results of our internal modeling in estimating the fair value of the TRS. We expect to continue the use of this methodology in subsequent periods.

7. DEBT AND SHAREHOLDERS' EQUITY

TARP Redemption

On March 28, 2012, we redeemed \$700 million of the \$1.4 billion Series D Fixed-Rate Cumulative Perpetual Preferred Stock issued to the U.S. Department of the Treasury under its Troubled Asset Relief Program ("TARP") Capital Purchase Program. The redemption was made following notification from the Federal Reserve Board ("FRB") on March 13, 2012 that it does not object to the capital actions proposed in our Capital Plan submitted under the FRB's 2012 Capital Plan Review.

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Among other things, our Capital Plan includes the following provisions: (1) completing the entire redemption in 2012 of our TARP preferred stock with the second \$700 million installment contingent upon specified conditions requiring regulatory approval, including Parent liquidity and other requirements; (2) issuing a total of \$600 million in senior debt (see debt issuances and redemption following); (3) redeeming on a timely basis the Company's \$254.9 million variable rate senior medium-term notes (see debt issuances and redemption following); and (4) not changing in 2012 the current common stock dividend of \$0.01 per share per quarter. There is no requirement to issue common or preferred equity. See also preferred stock issuance and redemption following.

The TARP redemption accelerated the amortization of approximately \$19.6 million of unamortized discount in the first quarter of 2012. This discount was based on the fair value originally estimated for the common stock warrant associated with the TARP preferred stock issuance. The discount was being accreted to preferred stock over five years using the interest method with a corresponding increase to preferred stock dividends.

**Debt Issuances and Redemption**

On March 27, 2012, we issued \$300 million of 4.5% senior unsecured medium-term notes at a price of 94.25%. On May 1, 2012, we issued an additional \$100 million at a price of 100.249%, bringing the total to \$400 million of the 4.5% notes that are due March 27, 2017. On June 20, 2012, we issued \$158.45 million of 4.0% senior notes due June 20, 2016 at a price of 97.5%. Net of commissions, fees and discounts, the proceeds to the Company for these debt issuances were \$533.3 million.

We redeemed all \$254.9 million of variable rate senior medium-term notes on their maturity date of June 21, 2012 that were guaranteed under the FDIC's Temporary Liquidity Guarantee Program. We have no other notes outstanding under this program.

During the three and six months ended June 30, 2012, we issued long-term senior medium-term notes of \$11.9 million and \$61.9 million, respectively, and a short-term medium-term note of \$5.0 million during the first quarter of 2012. The short-term note matures March 2013 at an interest rate of 2.0%. The long-term notes mature February 2014 and June 2014 at interest rates of 3.5% and 3.4%, respectively. During these same periods, we redeemed at maturity \$12.0 million and \$66.9 million of short-term senior medium-term notes.

**Subordinated Debt Conversions**

During the three and six months ended June 30, 2012, \$50.2 million and \$80.0 million of convertible subordinated debt was converted into depositary shares each representing a 1/40<sup>th</sup> interest in a share of the Company's preferred stock. These conversions added 79,596 shares of Series C and 370 shares of Series A to the Company's preferred stock.

For the six months ended June 30, 2012 in connection with these conversions, the \$93.6 million added to preferred stock included the transfer from common stock of \$13.6 million of the intrinsic value of the beneficial conversion feature. The amount of this conversion feature was included with common stock at the time of the debt modification. The remaining balance in common stock of this conversion feature was approximately \$78.2 million at June 30, 2012. Accelerated discount amortization on the converted debt increased interest expense for the three and six months ended June 30, 2012 by approximately \$16.2 million and \$28.4 million, respectively. At June 30, 2012, the balance at par of the convertible subordinated debt was \$467.4 million and the remaining balance of the convertible debt discount was \$174.0 million.

**Preferred Stock Issuance and Redemption**

On May 7, 2012, we sold \$143.75 million of Series F 7.9% Fixed-Rate Non-Cumulative Perpetual Preferred Stock. The issuance was in the form of depositary shares with each depositary share representing a 1/40<sup>th</sup> ownership interest in a share of the preferred stock. The shares are registered with the SEC and qualify as Tier 1 capital. We redeemed on the June 15, 2012 call date all \$142.5 million of Series E 11% preferred stock.



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## Changes in Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income (loss) are summarized as follows:

| (In thousands)   | Net unrealized<br>gains (losses)<br>on investments<br>and retained<br>interests | Net unrealized<br>gains (losses)<br>on derivative<br>instruments | Pension<br>and post-<br>retirement | Total        |
|--|---|--|------------------------------------|--------------|
| <b>Six Months Ended June 30, 2012:</b>   |   |  |                                    |              |
| Balance at December 31, 2011   | \$(546,763 )  | \$9,404  | \$(54,725 )                        | \$(592,084 ) |
| Other comprehensive income (loss), net of tax:   |   |  |                                    |              |
| Net realized and unrealized holding gains, net of income tax expense of \$17,775   | 29,045  |  |                                    | 29,045       |
| Reclassification for net losses included in earnings, net of income tax benefit of \$4,318                                   | 6,619   |  |                                    | 6,619        |
| Noncredit-related impairment losses on securities not expected to be sold, net of income tax benefit of \$9,479              | (15,303 )   |  |                                    | (15,303 )    |
| Accretion of securities with noncredit-related impairment losses not expected to be sold, net of income tax expense of \$349 | 532   |  |                                    | 532          |
| Net unrealized losses, net of reclassification to earnings of \$8,493 and income tax benefit of \$3,231                      |   | (4,956 )   |                                    | (4,956 )     |
| Other comprehensive income (loss)  | 20,893  | (4,956 )   | —                                  | 15,937       |
| Balance at June 30, 2012   | \$(525,870 )  | \$4,448  | \$(54,725 )                        | \$(576,147 ) |
| <b>Six Months Ended June 30, 2011:</b>   |   |  |                                    |              |
| Balance at December 31, 2010   | \$(456,264 )  | \$30,702   | \$(35,734 )                        | \$(461,296 ) |
| Other comprehensive income (loss), net of tax:   |   |  |                                    |              |
| Net realized and unrealized holding losses, net of income tax benefit of \$22,217  | (36,060 )   |  |                                    | (36,060 )    |
| Reclassification for net losses included in earnings, net of income tax benefit of \$4,128                                   | 6,590   |  |                                    | 6,590        |
| Noncredit-related impairment losses on securities not expected to be sold, net of income tax benefit of \$452                | (729 )  |  |                                    | (729 )       |
| Accretion of securities with noncredit-related impairment losses not expected to be sold, net of income tax expense of \$61  | 99  |  |                                    | 99           |
| Net unrealized losses, net of reclassification to earnings of \$23,105 and income tax benefit of \$8,335                     |   | (13,095 )  |                                    | (13,095 )    |
| Other comprehensive loss   | (30,100 )   | (13,095 )  | —                                  | (43,195 )    |
| Balance at June 30, 2011   | \$(486,364 )  | \$17,607   | \$(35,734 )                        | \$(504,491 ) |

## 8. INCOME TAXES

The income tax expense rates for the three and six months ended June 30, 2012 were lower than the tax rates for the same periods in 2011 because of a decrease in the nondeductible amount of a portion of the accelerated discount amortization from the conversion of subordinated debt to preferred stock.

The balance of net deferred tax assets was approximately \$479 million at June 30, 2012 and \$509 million at December 31, 2011. We evaluate the net deferred tax assets on a regular basis to determine whether an additional valuation allowance is required. Based on this evaluation, and considering the weight of the positive evidence compared to the negative evidence, we have concluded that an additional valuation allowance is not required as of June 30, 2012.

## 9. FAIR VALUE

### Fair Value Measurements

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This new accounting guidance under ASC 820, Fair Value Measurement, provides convergence to IFRS and amends fair value measurement and disclosure guidance. Among other things, new disclosures are

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required for qualitative information and sensitivity analysis regarding Level 3 measurements. We adopted this new guidance effective January 1, 2012 as required and have incorporated it into the following disclosures.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To measure fair value, a hierarchy has been established that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities; includes U.S. Treasury and other U.S. Government and agency securities actively traded in over-the-counter markets; mutual funds and stock; securities sold, not yet purchased; and certain derivatives.

Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data; also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency securities; municipal securities; CDO securities; mutual funds and stock; private equity investments; securities sold, not yet purchased; and derivatives.

Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data. This category generally includes municipal securities; private equity investments, most CDO securities, and the total return swap. We use fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure for accounting. This is done primarily for AFS and trading investment securities; private equity investments; securities sold, not yet purchased; and derivatives. Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as for loans held for sale, impaired loans, and OREO. Fair value is also used when evaluating impairment on certain assets, including HTM and AFS securities, goodwill, core deposit and other intangibles, long-lived assets, and for disclosures of certain financial instruments.

#### Utilization of Third Party Service Providers

We use third party service providers and a licensed internal third party model to estimate fair value for certain of our AFS securities as follows:

For AFS Level 2 securities, we use a third party pricing service to provide pricing, if available, for securities in the following reporting categories: U.S. Treasury, agencies and corporations (except Federal Agricultural Mortgage Corporation (“FAMC”) securities); municipal securities; trust preferred – banks and insurance; and other (including ABS CDOs). At June 30, 2012, the fair value of AFS Level 2 securities for which we obtained pricing from the third party pricing service in these reporting categories amounted to approximately \$1.8 billion of the \$2.0 billion total of AFS Level 2 securities.

For AFS Level 3 securities, we use other third party service providers to provide pricing, if available, for securities in the following reporting categories: trust preferred – banks and insurance, trust preferred – real estate investment trusts, auction rate, and other (including ABS CDOs). At June 30, 2012, the fair value of AFS Level 3 securities for which we obtained pricing from these third party service providers in these reporting categories amounted to approximately \$53 million of the \$1.0 billion total of AFS Level 3 securities. In addition, the fair values for approximately \$905 million at June 30, 2012 of our AFS Level 3 securities were determined utilizing a licensed internal third party model. See “trust preferred CDO internal model” discussed subsequently.

Fair values of the remaining AFS Level 2 and Level 3 securities not valued by pricing from third party services or the licensed internal third party model were determined by us using market corroborative data. At June 30, 2012, the Level 2 securities consisted of approximately \$143 million of FAMC securities and \$6 million of mutual funds and stock, and the Level 3 securities consisted of \$16 million of municipal securities and \$30 million of ABS CDOs. Estimation of the fair values of the FAMC securities included the use of a standard mortgage pass-through calculator that incorporates discounted cash flows, while the municipal securities included the use of a standard form discounted cash flow model with certain inputs adjusted for market conditions.



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For AFS Level 2 securities, the third party pricing service provides documentation on an ongoing basis that includes, among other things, pricing information with respect to reference data, methodology, inputs summarized by asset class, pricing application, corroborative information, etc. The documentation includes benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. Also included are data from the vendor trading platform. We review, test and validate this information as appropriate.

For AFS Level 3 securities, we compare assumptions with other third party service providers and with our internal models and the information we have about market trends and trading data. This includes information regarding trading prices, implied discounts, outlier information, valuation assumptions, etc. We consider this information to determine whether the comparability of the security and the orderliness of the trades make such reported prices suitable to consider in our estimates of fair value.

Because of the timeliness of our involvement, the ongoing exchange of market information, and our agreement on input assumptions, we do not adjust prices from our third party service providers. The procedures discussed previously help ensure that the fair value information received was determined in accordance with applicable accounting guidance.

#### Available-for-Sale and Trading

AFS and trading investment securities are fair valued under Level 1 using quoted market prices when available for identical securities. When quoted prices are not available, fair values are determined under Level 2 using quoted prices for similar securities or independent pricing services that incorporate observable market data when possible. The largest portion of AFS securities include certain CDOs backed by trust preferred securities issued by banks and insurance companies and, to a lesser extent, by REITs. These securities are fair valued primarily under Level 3.

#### U.S. Treasury, Agencies and Corporations

Valuation inputs under Level 2 utilized by the third party service provider are discussed previously.

#### Municipal Securities

Valuation inputs under Level 2 utilized by the third party service provider are discussed previously. We may also include reported trades and material event notices from the Municipal Securities Rulemaking Board, plus new issue data. Municipal securities under Level 3 are fair valued similar to the auction rate securities.

#### Trust Preferred Collateralized Debt Obligations

Substantially all of the CDO portfolio is fair valued using an income-based cash flow modeling approach incorporating several methodologies that primarily include internal and third party models.

Trust preferred CDO internal model: A licensed third party cash flow model, which requires the Company to input its own default assumptions, is used to estimate fair values of bank and insurance trust preferred CDOs. We utilize a statistical regression of quarterly regulatory ratios that we have identified as predictive of future bank failures to create a credit-specific probability of default (“PD”) for each bank issuer. The inputs are updated quarterly to include the most recent available financial ratios and the regression formula is updated periodically to utilize those financial ratios that have best predicted bank failures during this credit cycle (“ratio-based approach”). Our ratio-based approach, while generally referencing trailing quarter regulatory data and ratios, seeks to incorporate the most recent available information.

Approximately 27% of the bank issuers are public companies included in a third party proprietary reduced form model. The model generates PDs using equity valuation-related inputs along with other macro and issuer-specific inputs.

We use a floor PD of 30 basis points (“bps”) for year one for collateral where the higher of the one-year PDs from our ratio based approach and those from the third party proprietary reduced form model would be lower. The short-term 30 bps PD is similar to the PD we would apply if we had direct lending exposures to CDO pool collateral. We use a

floor PD of 48 bps each year from years two to five smoothing the step-up to reach a 65 bps minimum PD for year six. We utilize a minimum PD for years six to maturity of 65 bps for bank collateral.

The resulting five-year PDs at June 30, 2012 ranged from 100% for the “worst” deferring banks to 2.18% for the “best” deferring banks. The weighted average assumed loss rate on deferring collateral was 24% at June 30, 2012 and 26% at both March 31, 2012 and December 31, 2011. This loss rate is calculated as a percentage of the par amount of deferring collateral within a pool that is expected to default prior to the end of a five-year deferral period. The model includes the expectation that deferrals that do not default will pay their contractually required back interest and return to a current status at the end of five years. Estimates of expected loss for the individual pieces of underlying collateral are aggregated to

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arrive at a pool-level expected loss rate for each CDO. These loss assumptions are applied to the CDO's structure to generate cash flow projections for each tranche of the CDO.

We utilize a present value technique to identify both the OTTI present in the CDO tranches and to estimate fair value. To determine the credit-related portion of OTTI in accordance with applicable accounting guidance, we use the security specific effective interest rate when estimating the present value of cash flows. We discount the credit-adjusted cash flow of each CDO tranche at a tranche-specific discount rate which reflects the risk that the actual cash flow may vary from the expected credit-adjusted cash flow for that CDO tranche. This rate is consistent with market participants' assumptions, which include market illiquidity, and is applied to credit adjusted cash flows. We follow applicable guidance on illiquid markets such that risk premiums should be reflective of an orderly transaction between market participants under current market conditions. Because these securities are not traded on exchanges and trading prices are not posted on the TRACE<sup>®</sup> system (Trade Reporting and Compliance Engine<sup>®</sup>), we also seek information from market participants to obtain trade price information.

The discount rate assumption used for valuation purposes for each CDO tranche is derived from trading yields on publicly traded trust preferred securities and projected PDs on the underlying issuers as well as observed trades in our CDO tranches in accordance with applicable accounting guidance. The data set generally includes one or more publicly-traded trust preferred securities in deferral with regard to the payment of current interest and observed trades in our CDO tranches which appeared to be either orderly (that is, not distressed or forced); or whose orderliness could not be definitively refuted. Trading data is generally limited to a single transaction in each of several of our original AAA-rated tranches and several of our original A-rated tranches. The effective yields on the securities are then used to determine a relationship between the effective yield and expected loss. Expected loss for this purpose is a measure of the variability of cash flows from the mean estimate of cash flow across all Monte Carlo simulations. This relationship is then considered along with other third party or market data in order to identify appropriate discount rates to be applied to the CDOs.

Our June 30, 2012, valuations for bank and insurance tranches utilized a discount rate range of LIBOR + 3.75% for the highest quality/most over-collateralized insurance-only tranches and LIBOR + 26.0% for the lowest credit quality tranche, which included bank collateral, in order to reflect market level assumptions for structured finance securities. For tranches that include bank collateral, the discount rate was at least LIBOR + 6.6% for the highest quality/most over-collateralized tranches. These discount rates are applied to already credit-adjusted cash flows for each tranche. CDO tranches with greater uncertainty in their cash flows are discounted at rates higher than those market participants would use for tranches with more stable expected cash flows (e.g., as a result of more subordination and/or better credit quality in the underlying collateral). The high end of the discount rate spectrum was applied to tranches in which minor changes in default assumption timing produced substantial deterioration in tranche cash flows. These discount rates are applied to credit-adjusted cash flows, which constitute each tranche's expected cash flows; discount rates are not applied to a hypothetical contractual cash flow.

At June 30, 2012, the discount rates utilized for fair value purposes for tranches that include bank collateral were:

- 1) LIBOR + 6.6% to 7.6% and averaged LIBOR + 6.7% for first priority original AAA-rated bonds;
- 2) LIBOR + 6.6% to 8.3% and averaged LIBOR + 7.0% for lower priority original AAA-rated bonds;
- 3) LIBOR + 6.8% to 21.9% and averaged LIBOR + 13.6% for original A-rated bonds; and
- 4) LIBOR + 10.4% to 26.0% and averaged LIBOR + 22.5% for original BBB-rated bonds.

Accordingly, the wide difference between the effective interest rate used in the determination of the credit component of OTTI and the discount rate on the CDOs used in the determination of fair value results in the unrealized losses. The discount rate used for fair value purposes significantly exceeds the effective interest rate for the CDOs. The differences average approximately 6% for the original AAA-rated CDO tranches, 12% for the original A-rated CDO tranches, and 20% for the original BBB-rated CDO tranches. With the exception of certain of the most senior CDOs, most of the principal payments are not expected prior to the final maturity date, which is generally 2029 or later. High

market discount rates and the long maturities of the CDO tranches result in full principal repayment contributing little to CDO tranche fair values.

Certain REIT and ABS CDOs are fair valued by third party services using their proprietary models. These models utilize relevant data assumptions, which we evaluate for reasonableness. These assumptions include, but are not limited to, discount rates, PDs, loss-given-default rates, over-collateralization levels, and rating transition probability matrices from rating agencies. See subsequent discussion regarding key model inputs and assumptions. The model prices obtained from third party services are evaluated for reasonableness including quarter to quarter changes in assumptions and comparison to other available data, which included third party and internal model results and valuations.

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Auction Rate Securities

Our market approach methodology includes various data inputs, including AAA municipal and corporate bond yield curves, credit ratings and leverage of each closed-end fund, and market yields for municipal bonds and commercial paper.

Private Equity Investments

Private equity investments valued under Level 2 on a recurring basis are investments in partnerships that invest in certain financial services and real estate companies, some of which are publicly traded. Fair values are determined from net asset values, or their equivalents, provided by the partnerships. These fair values are determined on the last business day of the month using values from the primary exchange. In the case of illiquid or nontraded assets, the partnerships obtain fair values from independent sources. We have no unfunded commitments to these partnerships and redemption is available annually.

Private equity investments valued under Level 3 on a recurring basis are recorded initially at acquisition cost, which is considered the best indication of fair value unless there have been material subsequent positive or negative developments that justify an adjustment in the fair value estimate. Subsequent adjustments to recorded fair values are based as necessary on current and projected financial performance, recent financing activities, economic and market conditions, market comparables, market liquidity, sales restrictions, and other factors.

Derivatives

Derivatives are fair valued according to their classification as either exchange-traded or over-the-counter (“OTC”). Exchange-traded derivatives consist of forward currency exchange contracts that have been fair valued under Level 1 because they are traded in active markets. OTC derivatives, including those for customers, consist of interest rate swaps and options. These derivatives are fair valued under Level 2 using third party services. Observable market inputs include yield curves (the LIBOR swap curve and applicable basis swap curves), foreign exchange rates, commodity prices, option volatilities, counterparty credit risk, and other related data. Credit valuation adjustments are required to reflect both our own nonperformance risk and the respective counterparty’s nonperformance risk. These adjustments are determined generally by applying a credit spread for the counterparty or the Company as appropriate to the total expected exposure of the derivative. Amounts disclosed in the following schedules differ from the presentation in Note 6 in that they include the foreign currency exchange contracts and are presented net of cash collateral offsets. The estimation of fair value of the total return swap is discussed in Note 6.

Securities Sold, Not Yet Purchased

Securities sold, not yet purchased are fair valued under Level 1 when quoted prices are available for the securities involved. Those under Level 2 are fair valued similar to trading account investment securities.

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## Quantitative Disclosure of Fair Value Measurements

Assets and liabilities measured at fair value by class on a recurring basis are summarized as follows:

| (In thousands)                                  | June 30, 2012 |             |             | Total       |
|---|---------------|-------------|-------------|-------------|
|   | Level 1       | Level 2     | Level 3     |             |
| <b>ASSETS</b>                                   |               |             |             |             |
| Investment securities:                          |               |             |             |             |
| Available-for-sale:                             |               |             |             |             |
| U.S. Treasury, agencies and corporations        | \$3,100       | \$1,837,914 |             | \$1,841,014 |
| Municipal securities                            |               | 102,717     | \$16,360    | 119,077     |
| Asset-backed securities:                        |               |             |             |             |
| Trust preferred – banks and insurance           |               | 184         | 926,450     | 926,634     |
| Trust preferred – real estate investment trusts |               |             | 14,431      | 14,431      |
| Auction rate                                    |               |             | 7,166       | 7,166       |
| Other (including ABS CDOs)                      |               | 5,626       | 40,666      | 46,292      |
| Mutual funds and stock                          | 206,729       | 6,247       |             | 212,976     |
|   | 209,829       | 1,952,688   | 1,005,073   | 3,167,590   |
| Trading account                                 |               | 20,539      |             | 20,539      |
| Other noninterest-bearing investments:          |               |             |             |             |
| Private equity                                  |               | 5,220       | 121,488     | 126,708     |
| Other assets:                                   |               |             |             |             |
| Derivatives:                                    |               |             |             |             |
| Interest rate related and other                 |               | 5,751       |             | 5,751       |
| Interest rate swaps for customers               |               | 83,319      |             | 83,319      |
| Foreign currency exchange contracts             | 4,366         |             |             | 4,366       |
|   | 4,366         | 89,070      |             | 93,436      |
|   | \$214,195     | \$2,067,517 | \$1,126,561 | \$3,408,273 |
| <b>LIABILITIES</b>                              |               |             |             |             |
| Securities sold, not yet purchased              | \$82,658      | \$22,224    |             | \$104,882   |
| Other liabilities:                              |               |             |             |             |
| Derivatives:                                    |               |             |             |             |
| Interest rate related and other                 |               | 579         |             | 579         |
| Interest rate swaps for customers               |               | 88,196      |             | 88,196      |
| Foreign currency exchange contracts             | 4,643         |             |             | 4,643       |
| Total return swap                               |               |             | \$5,337     | 5,337       |
|   | 4,643         | 88,775      | 5,337       | 98,755      |
| Other   |               |             | 121         | 121         |
|   | \$87,301      | \$110,999   | \$5,458     | \$203,758   |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)                                  | December 31, 2011 |             |             | Total       |
|---|-------------------|-------------|-------------|-------------|
|   | Level 1           | Level 2     | Level 3     |             |
| <b>ASSETS</b>                                   |                   |             |             |             |
| Investment securities:                          |                   |             |             |             |
| Available-for-sale:                             |                   |             |             |             |
| U.S. Treasury, agencies and corporations        | \$3,103           | \$1,874,010 |             | \$1,877,113 |
| Municipal securities                            |                   | 104,787     | \$17,381    | 122,168     |
| Asset-backed securities:                        |                   |             |             |             |
| Trust preferred – banks and insurance           |                   | 354         | 929,356     | 929,710     |
| Trust preferred – real estate investment trusts |                   |             | 18,645      | 18,645      |
| Auction rate                                    |                   |             | 70,020      | 70,020      |
| Other (including ABS CDOs)                      |                   | 6,826       | 43,546      | 50,372      |
| Mutual funds and stock                          | 156,829           | 5,938       |             | 162,767     |
|   | 159,932           | 1,991,915   | 1,078,948   | 3,230,795   |
| Trading account                                 |                   | 40,273      |             | 40,273      |
| Other noninterest-bearing investments:          |                   |             |             |             |
| Private equity                                  |                   | 5,339       | 128,348     | 133,687     |
| Other assets:                                   |                   |             |             |             |
| Derivatives:                                    |                   |             |             |             |
| Interest rate related and other                 |                   | 9,560       |             | 9,560       |
| Interest rate swaps for customers               |                   | 82,648      |             | 82,648      |
| Foreign currency exchange contracts             | 6,498             |             |             | 6,498       |
|   | 6,498             | 92,208      |             | 98,706      |
|   | \$166,430         | \$2,129,735 | \$1,207,296 | \$3,503,461 |
| <b>LIABILITIES</b>                              |                   |             |             |             |
| Securities sold, not yet purchased              | \$13,098          | \$31,388    |             | \$44,486    |
| Other liabilities:                              |                   |             |             |             |
| Derivatives:                                    |                   |             |             |             |
| Interest rate related and other                 |                   | 734         |             | 734         |
| Interest rate swaps for customers               |                   | 87,363      |             | 87,363      |
| Foreign currency exchange contracts             | 6,046             |             |             | 6,046       |
| Total return swap                               |                   |             | \$5,422     | 5,422       |
|   | 6,046             | 88,097      | 5,422       | 99,565      |
| Other   |                   |             | 86          | 86          |
|   | \$19,144          | \$119,485   | \$5,508     | \$144,137   |

## Key Model Inputs and Assumptions

Key model unobservable input assumptions used to fair value certain asset-backed securities by class under Level 3 include the following at June 30, 2012:

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| (Dollars in thousands)                             | Fair value at<br>June 30, 2012 | Valuation<br>approach | Constant default<br>rate (“CDR”)    | Loss<br>severity | Prepayment rate                     |
|--|--------------------------------|-----------------------|-------------------------------------|------------------|-------------------------------------|
| Asset-backed securities:                           |                                |                       |                                     |                  |                                     |
| Trust preferred –<br>predominantly banks           | \$765,465                      | Income                | Pool specific <sup>3</sup>          | 100%             | Pool specific <sup>7</sup>          |
| Trust preferred –<br>predominantly insurance       | 288,665                        | Income                | Pool specific <sup>4</sup>          | 100%             | 4.5% per year                       |
| Trust preferred – individual<br>banks              | 18,005                         | Market                |                                     |                  |                                     |
|  | 1,072,135                      | <sup>1</sup>          |                                     |                  |                                     |
| Trust preferred – real estate<br>investment trusts | 14,431                         | Income                | Pool specific <sup>5</sup>          | 60-100%          | 0% per year                         |
| Other (including ABS CDOs)                         | 52,880                         | <sup>2</sup> Income   | Collateral specific<br><sup>6</sup> | 70-100%          | Collateral weighted<br>average life |

<sup>1</sup> Includes \$926.4 million of AFS securities and \$145.7 million of HTM securities.

<sup>2</sup> Includes \$40.7 million of AFS securities and \$12.2 million of HTM securities.

<sup>3</sup> CDR ranges: yr 1 – 0.30% to 7.80%; yrs 2-5 – 0.45% to 0.63%; yrs 6 to maturity – 0.58% to 0.70%.

<sup>4</sup> CDR ranges: yr 1 – 0.32% to 0.41%; yrs 2-5 – 0.45% to 0.47%; yrs 6 to maturity – 0.50% to 0.54%.

<sup>5</sup> CDR ranges: yr 1 – 5.6% to 8.3%; yrs 2-3 – 4.1% to 6.1%; yrs 4-6 – 1.0%; yrs 6 to maturity – 0.50%.

<sup>6</sup> These are predominantly ABS CDOs whose collateral is rated. CDR and loss severities are built up from the loan level and vary by collateral ratings, asset class, and vintage.

<sup>7</sup> Constant Prepayment Rate (“CPR”) ranges: 3.0% to 25.15% annually until 2016; 2016 to maturity – 3.0% annually. The fair value of the Level 3 bank and insurance CDO portfolio would generally be adversely affected by significant increases in the CDR for performing collateral, the loss percentage expected from deferring collateral, and the discount rate used. The fair value of the portfolio would generally be positively affected by increases in interest rates and prepayment rates. For a specific tranche within a CDO, the directionality of the fair value change for a given assumption change may differ depending on the seniority level of the tranche. For example, faster prepayment may increase the fair value of a senior most tranche of a CDO while decreasing the fair value of a more junior tranche. The following presents the percentage of total fair value of predominantly bank trust preferred CDOs by vintage year (origination date) according to original rating:

(Dollars in thousands)

| Vintage<br>year | Fair value at June<br>30, 2012 | Percentage of total fair value<br>according to original rating |        |       | Percentage of total<br>fair value by vintage |       |   |
|-----------------|--------------------------------|--|--------|-------|--|-------|---|
|                 |                                | AAA  | A      | BBB   |  |       |   |
| 2001            | \$54,703                       | 6.0  | % 1.0  | % 0.1 | %  | 7.1   | % |
| 2002            | 232,448                        | 27.8   | 2.6    | —     | %  | 30.4  |   |
| 2003            | 266,372                        | 23.9   | 10.9   | —     | %  | 34.8  |   |
| 2004            | 126,927                        | 7.2  | 9.4    | —     | %  | 16.6  |   |
| 2005            | 13,121                         | 0.9  | 0.8    | 0.1   | %  | 1.8   |   |
| 2006            | 39,395                         | 2.6  | 2.3    | 0.2   | %  | 5.1   |   |
| 2007            | 32,499                         | 4.2  | —      | —     | %  | 4.2   |   |
|                 | \$765,465                      | 72.6   | % 27.0 | % 0.4 | %  | 100.0 | % |

Reconciliation of Level 3 Fair Value Measurements



The following reconciles the beginning and ending balances of assets and liabilities that are measured at fair value by class on a recurring basis using Level 3 inputs:

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)  | Level 3 Instruments<br>Three Months Ended June 30, 2012 |                                       |                        |              |                    |                            |             |                   |
|---|---|---------------------------------------|------------------------|--------------|--------------------|----------------------------|-------------|-------------------|
|   | Municipal securities                                    | Trust preferred – banks and insurance | Trust preferred – REIT | Auction rate | Other asset-backed | Private equity investments | Derivatives | Other liabilities |
| Balance at March 31, 2012                                       | \$17,109  | \$935,870                             | \$16,000               | \$40,873     | \$40,322           | \$134,746                  | \$(5,218 )  | \$(205 )          |
| Total net gains (losses) included in:                           |   |                                       |                        |              |                    |                            |             |                   |
| Statement of income:  |   |                                       |                        |              |                    |                            |             |                   |
| Accretion of purchase discount on securities available-for-sale | 21  | 2,475                                 | 61                     | 1            | 80                 |                            |             |                   |
| Dividends and other investment income                           |   |                                       |                        |              |                    | 6,820                      |             |                   |
| Equity securities losses, net                                   |   |                                       |                        |              |                    | (10,086 )                  |             |                   |
| Fixed income securities gains, net                              |   | 3,224                                 |                        | 2,246        |                    |                            |             |                   |
| Net impairment losses on investment securities                  |   | (6,967 )                              |                        |              |                    |                            |             |                   |
| Other noninterest expense                                       |   |                                       |                        |              |                    |                            |             | 84                |
| Other comprehensive income (loss)                               | (595 )  | 3,534                                 | (1,630 )               | 546          | 569                |                            |             |                   |
| Purchases   |   |                                       |                        |              |                    | 4,397                      |             |                   |
| Sales   |   |                                       |                        |              |                    | (9,064 )                   |             |                   |
| Redemptions and paydowns  | (175 )  | (11,686 )                             |                        | (36,500 )    | (305 )             | (5,325 )                   | (119 )      |                   |
| Balance at June 30, 2012  | \$16,360  | \$926,450                             | \$14,431               | \$7,166      | \$40,666           | \$121,488                  | \$(5,337 )  | \$(121 )          |
| (In thousands)  | Level 3 Instruments<br>Six Months Ended June 30, 2012   |                                       |                        |              |                    |                            |             |                   |
|   | Municipal securities                                    | Trust preferred – banks and insurance | Trust preferred – REIT | Auction rate | Other asset-backed | Private equity investments | Derivatives | Other liabilities |
| Balance at December 31, 2011                                    | \$17,381  | \$929,356                             | \$18,645               | \$70,020     | \$43,546           | \$128,348                  | \$(5,422 )  | \$(86 )           |
| Total net gains (losses) included in:                           |   |                                       |                        |              |                    |                            |             |                   |
| Statement of income:  |   |                                       |                        |              |                    |                            |             |                   |
| Accretion of purchase discount on securities                    | 64  | 5,028                                 | 101                    | 2            | 160                |                            |             |                   |

|                           |          |           |          |         |          |           |           |         |         |        |   |    |
|---------------------------|----------|-----------|----------|---------|----------|-----------|-----------|---------|---------|--------|---|----|
| available-for-sale        |          |           |          |         |          |           |           |         |         |        |   |    |
| Dividends and other       |          |           |          |         |          |           |           |         |         |        |   |    |
| investment income         |          |           |          |         |          |           |           | 8,559   |         |        |   |    |
| Equity securities losses, |          |           |          |         |          |           |           | (625    | )       |        |   |    |
| net                       |          |           |          |         |          |           |           |         |         |        |   |    |
| Fixed income securities   |          |           |          |         |          |           |           |         |         |        |   |    |
| gains (losses), net       | 7,776    |           |          | 4,134   |          |           |           | (5,773  | )       |        |   |    |
| Net impairment losses on  |          |           |          |         |          |           |           |         |         |        |   |    |
| investment securities     | (17,176  | )         |          |         |          |           |           |         |         |        |   |    |
| Other noninterest         |          |           |          |         |          |           |           |         |         |        |   |    |
| expense                   |          |           |          |         |          |           |           |         | (35     | )      |   |    |
| Other comprehensive       |          |           |          |         |          |           |           |         |         |        |   |    |
| income (loss)             | (635     | )         | 33,733   | (4,315  | )        | 1,335     |           | 5,883   |         |        |   |    |
| Purchases                 |          |           |          |         |          |           |           | 7,379   |         |        |   |    |
| Sales                     |          |           |          |         |          |           |           | (14,718 | )       |        |   |    |
| Redemptions and           |          |           |          |         |          |           |           |         |         |        |   |    |
| paydowns                  | (450     | )         | (32,267  | )       |          | (68,325   | )         | (3,150  | )       | (7,455 | ) | 85 |
| Balance at June 30, 2012  | \$16,360 | \$926,450 | \$14,431 | \$7,166 | \$40,666 | \$121,488 | \$ (5,337 | )       | \$ (121 | )      |   |    |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)  | Level 3 Instruments<br>Three Months Ended June 30, 2011 |                                       |                        |              |                     |                            |             | Other liabilities |
|---|---|---------------------------------------|------------------------|--------------|---------------------|----------------------------|-------------|-------------------|
|   | Municipal securities                                    | Trust preferred – banks and insurance | Trust preferred – REIT | Auction rate | Other asset-backed. | Private equity investments | Derivatives |                   |
| Balance at March 31, 2011                                       | \$19,057  | \$1,183,999                           | \$19,714               | \$109,244    | \$69,487            | \$142,547                  | \$(10,511)  | \$(442)           |
| Total net gains (losses) included in:                           |   |                                       |                        |              |                     |                            |             |                   |
| Statement of income:  |   |                                       |                        |              |                     |                            |             |                   |
| Accretion of purchase discount on securities available-for-sale | 21  | 1,413                                 |                        | 1            | 34                  |                            |             |                   |
| Dividends and other investment income                           |   |                                       |                        |              |                     | 4,858                      |             |                   |
| Equity securities losses, net                                   |   |                                       |                        |              |                     | (1,635)                    |             |                   |
| Fixed income securities gains (losses), net                     |   | 3,595                                 |                        | 875          | (6,935)             |                            |             |                   |
| Net impairment losses on investment securities                  |   | (3,046)                               |                        |              | (2,112)             |                            |             |                   |
| Other noninterest expense                                       |   |                                       |                        |              |                     |                            |             |                   |
| Other comprehensive income (loss)                               | (216)   | (6,852)                               | (583)                  | (41)         | 5,076               |                            |             |                   |
| Purchases   |   |                                       |                        |              |                     | 9,466                      |             |                   |
| Sales   |   | (71,940)                              |                        |              | (19,310)            | (4,009)                    |             |                   |
| Redemptions and paydowns  |   | (9,252)                               |                        | (18,975)     | (864)               | (15,148)                   | 5,091       |                   |
| Balance at June 30, 2011  | \$18,862  | \$1,097,917                           | \$19,131               | \$91,104     | \$45,376            | \$136,079                  | \$(5,420)   | \$(442)           |

| (In thousands)                        | Level 3 Instruments<br>Six Months Ended June 30, 2011 |                                       |                        |              |                     |                            |             | Other liabilities |
|---------------------------------------|---|---------------------------------------|------------------------|--------------|---------------------|----------------------------|-------------|-------------------|
|                                       | Municipal securities                                  | Trust preferred – banks and insurance | Trust preferred – REIT | Auction rate | Other asset-backed. | Private equity investments | Derivatives |                   |
| Balance at December 31, 2010          | \$22,289  | \$1,241,694                           | \$19,165               | \$109,609    | \$69,630            | \$141,690                  | \$(15,925)  | \$(561)           |
| Total net gains (losses) included in: |   |                                       |                        |              |                     |                            |             |                   |
| Statement of income:                  |   |                                       |                        |              |                     |                            |             |                   |
|                                       | 190   | 2,890                                 |                        | 9            | 73                  |                            |             |                   |

|   |          |             |          |          |          |           |          |        |         |         |        |        |
|---|----------|-------------|----------|----------|----------|-----------|----------|--------|---------|---------|--------|--------|
| Accretion of purchase discount on securities available-for-sale |          |             |          |          |          |           |          |        |         |         |        |        |
| Dividends and other investment income                           |          |             |          |          |          | 5,565     |          |        |         |         |        |        |
| Equity securities losses, net                                   |          |             |          |          |          | (738      | )        |        |         |         |        |        |
| Fixed income securities gains (losses), net                     | 18       | 7,063       | (3,605   | )        | 882      | (6,928    | )        |        |         |         |        |        |
| Net impairment losses on investment securities                  |          | (4,866      | )        | (1,285   | )        | (2,112    | )        |        |         |         |        |        |
| Other noninterest expense                                       |          |             |          |          |          |           |          | 119    |         |         |        |        |
| Other comprehensive income (loss)                               | (515     | )           | (57,893  | )        | 5,394    | (61       | )        | 6,400  |         |         |        |        |
| Purchases   |          |             |          |          |          |           |          | 12,799 |         |         |        |        |
| Sales   | (895     | )           | (72,881  | )        | (538     | )         | (135     | )      | (19,310 | )       | (7,286 | )      |
| Redemptions and paydowns  | (2,225   | )           | (18,090  | )        |          | (19,200   | )        | (2,377 | )       | (15,951 | )      | 10,505 |
| Balance at June 30, 2011  | \$18,862 | \$1,097,917 | \$19,131 | \$91,104 | \$45,376 | \$136,079 | \$(5,420 | )      | \$(442  | )       |        |        |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The preceding reconciling amounts using Level 3 inputs include the following realized gains (losses):

| (In thousands)                              | Three Months Ended |         | Six Months Ended |         |
|---|--------------------|---------|------------------|---------|
|   | June 30,<br>2012   | 2011    | June 30,<br>2012 | 2011    |
| Dividends and other investment income       | \$3,859            | \$1,619 | \$4,516          | \$3,250 |
| Fixed income securities gains (losses), net | 5,470              | (2,465) | 6,137            | (2,570) |
| Nonrecurring Fair Value Measurements        |                    |         |                  |         |

Included in the balance sheet amounts are the following amounts of assets that had fair value changes measured on a nonrecurring basis.

| (In thousands)                   | Fair value at June 30, 2012 |          |         |          | Fair value at December 31, 2011 |          |         |          |
|----------------------------------|-----------------------------|----------|---------|----------|---------------------------------|----------|---------|----------|
|                                  | Level 1                     | Level 2  | Level 3 | Total    | Level 1                         | Level 2  | Level 3 | Total    |
| <b>ASSETS</b>                    |                             |          |         |          |                                 |          |         |          |
| HTM securities adjusted for OTTI | —                           | —        | \$7,940 | \$7,940  | —                               | —        | \$8,308 | \$8,308  |
| Impaired loans                   | —                           | \$16,060 | —       | 16,060   | —                               | \$3,615  | —       | 3,615    |
| Other real estate owned          | —                           | 38,498   | —       | 38,498   | —                               | 66,188   | —       | 66,188   |
|                                  | \$—                         | \$54,558 | \$7,940 | \$62,498 | \$—                             | \$69,803 | \$8,308 | \$78,111 |

| (In thousands)                   | Gains (losses) from<br>fair value changes |             | Gains (losses) from<br>fair value changes |             |
|----------------------------------|---|-------------|---|-------------|
|                                  | Three Months Ended<br>June 30,<br>2012    | 2011        | Six Months Ended<br>June 30,<br>2012      | 2011        |
| <b>ASSETS</b>                    |   |             |   |             |
| HTM securities adjusted for OTTI | \$ (341)                                  | \$ —        | \$ (341)                                  | \$ —        |
| Impaired loans                   | (640)                                     | (1,719)     | (3,041)                                   | (5,473)     |
| Other real estate owned          | (6,429)                                   | (8,754)     | (12,416)                                  | (30,415)    |
|                                  | \$ (7,410)                                | \$ (10,473) | \$ (15,798)                               | \$ (35,888) |

During the three and six months ended June 30, we recognized net gains of \$2.9 million and \$5.8 million in 2012, and \$5.5 million and \$11.0 million in 2011, respectively, from the sale of OREO properties that had a carrying value at the time of sale of approximately \$84.7 million and \$145.3 million during the six months ended June 30, 2012 and 2011, respectively. Previous to their sale during the three- and six-month periods, we recognized impairment on these properties of \$3.2 million and \$3.9 million in 2012, and \$9.9 million and \$14.8 million in 2011, respectively.

Impaired (or nonperforming) loans that are collateral-dependent are fair valued under Level 2 based on the fair value of the collateral. Performing loans are not generally considered to be collateral-dependent because the primary source of loan repayment is not the liquidation of the collateral by the bank. Land loans require the selling of parcels to meet loan repayments. OREO is fair valued under Level 2 at the lower of cost or fair value based on property appraisals at the time the property is recorded in OREO and as appropriate thereafter.

Measurement of impairment for collateral-dependent loans and OREO is based on third party appraisals that utilize one or more valuation techniques (income, market and/or cost approaches). The valuation method used for impaired construction loans is "as is." Any adjustments to calculated fair value are made based on recently completed and validated third party appraisals, third party appraisal services, automated valuation services, or our informed

judgment. Evaluations are made to determine that the appraisal process meets the relevant concepts and requirements of applicable accounting guidance.

Automated valuation services may be used primarily for residential properties when values from any of the previous methods were not available within 90 days of the balance sheet date. These services use models based on market, economic, and demographic values. The use of these models has only occurred in a very few instances and the related property valuations have not been significant to consider disclosure under Level 3 rather than Level 2.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

Impaired loans not collateral-dependent are fair valued based on the present value of future cash flows discounted at the expected coupon rates over the lives of the loans. Because the loans were not discounted at market interest rates, the valuations do not represent fair value and have been excluded from the nonrecurring fair value balance in the preceding schedules.

## Fair Value of Certain Financial Instruments

Following is a summary of the carrying values and estimated fair values of certain financial instruments:

| (In thousands)   | June 30, 2012  |                      | December 31, 2011 |                      |
|--|----------------|----------------------|-------------------|----------------------|
|  | Carrying value | Estimated fair value | Carrying value    | Estimated fair value |
| Financial assets:  |                |                      |                   |                      |
| HTM investment securities  | \$773,016      | \$715,710            | \$807,804         | \$729,974            |
| Loans and leases (including loans held for sale), net of allowance | 36,040,879     | 36,116,562           | 36,296,284        | 36,006,619           |
| Financial liabilities:   |                |                      |                   |                      |
| Time deposits  | 3,211,942      | 3,240,712            | 3,413,550         | 3,444,189            |
| Foreign deposits   | 1,504,827      | 1,504,178            | 1,575,361         | 1,574,271            |
| Other short-term borrowings  | 7,621          | 7,655                | 70,273            | 70,387               |
| Long-term debt (less fair value hedges)                            | 2,265,233      | 2,560,106            | 1,943,618         | 2,225,078            |

This summary excludes financial assets and liabilities for which carrying value approximates fair value. For financial assets, these include cash and due from banks and money market investments. For financial liabilities, these include demand, savings and money market deposits, and federal funds purchased and security repurchase agreements. The estimated fair value of demand, savings and money market deposits is the amount payable on demand at the reporting date. Carrying value is used because the accounts have no stated maturity and the customer has the ability to withdraw funds immediately. Also excluded from the summary are financial instruments recorded at fair value on a recurring basis, as previously described.

HTM investment securities primarily consist of municipal securities and bank and insurance trust preferred CDOs.

HTM municipal securities are fair valued under Level 3 using a standard form discounted cash flow model as discussed previously and the valuation inputs described under auction rate securities. HTM bank and insurance trust preferred CDOs are fair valued using the licensed internal third party model described previously.

The fair value of loans is estimated according to their status as nonimpaired or impaired. For nonimpaired loans, the fair value is estimated by discounting future cash flows using the LIBOR yield curve adjusted by a factor which reflects the credit and interest rate risk inherent in the loan. These future cash flows are then reduced by the estimated "life-of-the-loan" aggregate credit losses in the loan portfolio. These adjustments for lifetime future credit losses are derived from the methods used to estimate the ALLL for our loan portfolio and are adjusted quarterly as necessary to reflect the most recent loss experience. Impaired loans are already considered to be held at fair value. See Impaired Loans in Note 5 for details on the impairment measurement method for impaired loans. Loans, other than those held for sale, are not normally purchased and sold by the Company, and there are no active trading markets for most of this portfolio. Accordingly, our estimates of fair value for loans are categorized as Level 3.

The fair values of time and foreign deposits, other short-term borrowings, and long-term debt are estimated under Level 2. Time and foreign deposits, and other short-term borrowings, are fair valued by discounting future cash flows using the LIBOR yield curve to the given maturity dates. Long-term debt is fair valued based on actual market trades (i.e., an asset value) when available, or discounting cash flows to maturity using the LIBOR yield curve adjusted for credit spreads.



These fair value disclosures represent our best estimates based on relevant market information and information about the financial instruments. Fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of the various instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in the above methodologies and assumptions could significantly affect the estimates. Further, certain financial instruments and all nonfinancial instruments are excluded from the applicable disclosure requirements. Therefore, the fair value amounts shown in the schedule do not, by themselves, represent the underlying value of the Company as a whole.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## 10. GUARANTEES, COMMITMENTS AND CONTINGENCIES

## Guarantees

The following are guarantees issued by the Company:

| (In thousands)             | June 30,<br>2012 | December 31,<br>2011 |
|----------------------------|------------------|----------------------|
| Standby letters of credit: |                  |                      |
| Financial                  | \$883,714        | \$914,986            |
| Performance                | 166,238          | 165,298              |
|                            | \$1,049,952      | \$1,080,284          |

The Company's 2011 Annual Report on Form 10-K contains further information about these letters of credit including their terms and collateral requirements. At June 30, 2012, the Company had recorded approximately \$12.6 million as a liability for these guarantees, which consisted of \$8.1 million attributable to the reserve for unfunded lending commitments and \$4.5 million of deferred commitment fees.

As of June 30, 2012, the Parent has guaranteed approximately \$300 million of debt of affiliated trusts issuing trust preferred securities.

## Legal Matters

We are subject to litigation in court and arbitral proceedings, as well as proceedings, investigations, examinations and other actions brought or considered by governmental and self-regulatory agencies. At any given time, litigation may relate to lending, deposit and other customer relationships, vendor and contractual issues, employee matters, intellectual property matters, personal injuries and torts, regulatory and legal compliance, and other matters.

At any given time, proceedings, investigations, examinations and other actions brought or considered by governmental and self-regulatory agencies may relate to our banking, investment advisory, trust, securities, and other products and services; our customers' involvement in money-laundering, fraud, securities violations and other illicit activities or our policies and practices relating to such customer activities; and our compliance with the broad range of banking, securities and other laws and regulations applicable to us. At any given time, we may be in the process of responding to subpoenas, requests for documents, data and testimony relating to such matters and engaging in discussions to resolve the matters.

At least quarterly, we review outstanding and new legal matters, utilizing then available information. In accordance with applicable accounting guidance, if we determine that a loss from a matter is probable and the amount of the loss can be reasonably estimated, we establish an accrual for the loss. In the absence of such a determination, no accrual is made. Once established, accruals are adjusted to reflect developments relating to the matters.

In our review, we also assess whether we can determine the range of reasonably possible losses for significant matters in which we are unable to determine that the likelihood of a loss is remote. Because of the difficulty of predicting the outcome of legal matters, discussed subsequently, we are able to estimate such a range only for a limited number of matters. We currently estimate the aggregate range of reasonably possible losses for those matters to be from \$3 million to \$90 million, including the accrued liability, if any, related to those matters. This estimated range of reasonably possible losses is based on information currently available as of June 30, 2012 and has increased from an estimated range of \$3 million to \$75 million as of March 31, 2012 due to reassessments of the remoteness of loss in certain non-class action claims. The matters underlying the estimated range will change from time to time, and actual

results may vary significantly from this estimate. Those matters for which an estimate is not possible are not included within this estimated range and, therefore, this estimated range does not represent our maximum loss exposure.

Based on our current knowledge, we believe that our current estimated liability for litigation and other legal actions and claims, reflected in our accruals and determined in accordance with applicable accounting guidance, is adequate and that liabilities in excess of the amounts currently accrued, if any, arising from litigation and other legal actions and claims for which an estimate as previously described is possible, will not have a material impact on our financial condition, results of operations, or cash flows. However, in light of the significant uncertainties involved in these matters, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to our financial

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## ZIONS BANCORPORATION AND SUBSIDIARIES

condition, results of operations, or cash flows for any given reporting period.

Any estimate or determination relating to the future resolution of litigation, arbitration, governmental or self-regulatory examinations, investigations or actions or similar matters is inherently uncertain and involves significant judgment. This is particularly true in the early stages of a legal matter, when legal issues and facts have not been well articulated, reviewed, analyzed, and vetted through discovery, preparation for trial or hearings, substantive and productive mediation or settlement discussions, or other actions. It is also particularly true with respect to class action and similar claims involving multiple defendants, matters with complex procedural requirements or substantive issues or novel legal theories, and examinations, investigations and other actions conducted or brought by governmental and self-regulatory agencies, in which the normal adjudicative process is not applicable. Accordingly, we usually are unable to determine whether a favorable or unfavorable outcome is remote, reasonably likely, or probable, or to estimate the amount or range of a probable or reasonably likely loss, until relatively late in the course of a legal matter, sometimes not until a number of years have elapsed. Accordingly, our judgments and estimates relating to claims will change from time to time in light of developments and actual outcomes will differ from our estimates. These differences may be material.

While most matters relate to individual claims, we are also subject to putative class action claims and similar broader claims. Current putative class actions include the following:

three complaints relating to allegedly wrongful acts in our processing of overdraft fees on debit card transactions, *Barlow, et. al. v. Zions First National Bank and Zions Bancorporation*, pending in the United States District Court for the District of Utah, *Sadlier, et. al. v. National Bank of Arizona*, pending in the Superior Court for the State of Arizona, County of Maricopa, and *Starr, et al. v. California Bank & Trust*, pending in the Superior Court for the State of California at San Diego; and a complaint relating to our banking relationships with customers that allegedly engaged in wrongful telemarketing practices, *Reyes v. Zions First National Bank, et. al.*, pending in the United States District Court for the Eastern District of Pennsylvania.

Each of these class-action matters is in a relatively early stage, with discovery not yet having been commenced, except in the *Reyes* case. A complaint relating to allegedly wrongful practices relating to our recording of customer and employee phone calls, *Hernandez v. California Bank & Trust and Zions Bancorporation, et al.*, brought in the Superior Court for the State of California at Los Angeles, was recently dismissed.

## 11. RETIREMENT PLANS

The following discloses the net periodic benefit cost (credit) and its components for the Company's pension and postretirement plans:

|                | Supplemental retirement benefits |       |                     |      | Postretirement benefits |      | Supplemental retirement benefits |       |                     |      | Postretirement benefits |      |
|----------------|----------------------------------|-------|---------------------|------|-------------------------|------|----------------------------------|-------|---------------------|------|-------------------------|------|
|                | Pension benefits                 |       | retirement benefits |      | benefits                |      | Pension benefits                 |       | retirement benefits |      | benefits                |      |
| (In thousands) | Three Months Ended June 30,      |       |                     |      |                         |      | Six Months Ended June 30,        |       |                     |      |                         |      |
|                | 2012                             | 2011  | 2012                | 2011 | 2012                    | 2011 | 2012                             | 2011  | 2012                | 2011 | 2012                    | 2011 |
| Service cost   | \$13                             | \$46  | \$—                 | \$—  | \$9                     | \$8  | \$25                             | \$92  | \$—                 | \$—  | \$18                    | \$16 |
| Interest cost  | 1,892                            | 2,087 | 115                 | 140  | 12                      | 14   | 3,783                            | 4,173 | 230                 | 279  | 23                      | 27   |
|                | (2,827 )                         |       | (3,111)             |      |                         |      | (5,654 )                         |       | (6,221)             |      |                         |      |

|   |         |       |       |       |         |         |         |       |       |        |         |         |
|---|---------|-------|-------|-------|---------|---------|---------|-------|-------|--------|---------|---------|
| Expected return on plan assets              |         |       |       |       |         |         |         |       |       |        |         |         |
| Amortization of prior service cost (credit) |         | 31    | 31    | (61 ) | (61 )   |         |         | 62    | 62    | (122 ) | (122 )  |         |
| Amortization of net actuarial (gain) loss   | 2,345   | 1,305 | (28 ) | (4 )  | (22 )   | (31 )   | 4,691   | 2,611 | (57 ) | (8 )   | (43 )   | (63 )   |
| Net periodic benefit cost (credit)          | \$1,423 | \$327 | \$118 | \$167 | \$(62 ) | \$(70 ) | \$2,845 | \$655 | \$235 | \$333  | \$(124) | \$(142) |

As disclosed in the Company's 2011 Annual Report on Form 10-K, the Company has frozen its participation and benefit accruals for the pension plan and its contributions for individual benefit payments in the postretirement benefit plan.

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ZIONS BANCORPORATION AND SUBSIDIARIES

12. OPERATING SEGMENT INFORMATION

We manage our operations and prepare management reports and other information with a primary focus on geographical area. As of June 30, 2012, we operate eight community/regional banks in distinct geographical areas. Performance assessment and resource allocation are based upon this geographical structure. Zions Bank operates 105 branches in Utah and 26 branches in Idaho. CB&T operates 102 branches in California. Amegy operates 83 branches in Texas. NBA operates 74 branches in Arizona. NSB operates 53 branches in Nevada. Vectra operates 37 branches in Colorado and one branch in New Mexico. TCBW operates one branch in the state of Washington. TCBO operates one branch in Oregon. Additionally, each subsidiary bank, except for NSB, NBA and TCBO, operates a foreign branch in the Grand Cayman Islands.

The operating segment identified as “Other” includes the Parent, Zions Management Services Company (“ZMSC”), certain nonbank financial service subsidiaries, TCBO, and eliminations of transactions between segments. ZMSC provides internal technology and operational services to affiliated operating businesses of the Company. ZMSC charges most of its costs to the affiliates on an approximate break-even basis.

The accounting policies of the individual operating segments are the same as those of the Company. Transactions between operating segments are primarily conducted at fair value, resulting in profits that are eliminated for reporting consolidated results of operations. Operating segments pay for centrally provided services based upon estimated or actual usage of those services.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents selected operating segment information for the three months ended June 30, 2012 and 2011:

| (In millions)  | Zions Bank |         | CB&T    |         | Amegy  |        | NBA    |        | NSB    |         |
|--|------------|---------|---------|---------|--------|--------|--------|--------|--------|---------|
|  | 2012       | 2011    | 2012    | 2011    | 2012   | 2011   | 2012   | 2011   | 2012   | 2011    |
| <b>CONDENSED INCOME STATEMENT</b>                        |            |         |         |         |        |        |        |        |        |         |
| Net interest income                                      | \$171.6    | \$176.4 | \$117.9 | \$128.4 | \$90.4 | \$98.3 | \$41.4 | \$43.3 | \$31.0 | \$35.3  |
| Provision for loan losses                                | 20.4       | 21.6    | (3.8 )  | (5.8 )  | (8.9 ) | (0.2 ) | 2.5    | 1.8    | (1.6 ) | (18.2 ) |
| Net interest income after provision for loan losses      | 151.2      | 154.8   | 121.7   | 134.2   | 99.3   | 98.5   | 38.9   | 41.5   | 32.6   | 53.5    |
| Net impairment losses on investment securities           | (0.2 )     | —       | —       | —       | —      | —      | —      | —      | —      | —       |
| Loss on sale of investment securities to Parent          | —          | —       | —       | —       | —      | —      | —      | —      | —      | —       |
| Other noninterest income                                 | 45.6       | 49.6    | 18.4    | 23.8    | 45.3   | 39.3   | 7.8    | 9.5    | 8.5    | 10.1    |
| Noninterest expense                                      | 125.5      | 137.2   | 84.4    | 93.1    | 86.8   | 84.1   | 38.0   | 37.0   | 34.3   | 35.7    |
| Income (loss) before income taxes                        | 71.1       | 67.2    | 55.7    | 64.9    | 57.8   | 53.7   | 8.7    | 14.0   | 6.8    | 27.9    |
| Income tax expense (benefit)                             | 25.2       | 23.0    | 22.2    | 26.0    | 18.8   | 17.7   | 3.4    | 5.5    | 2.4    | 9.8     |
| Net income (loss)  | 45.9       | 44.2    | 33.5    | 38.9    | 39.0   | 36.0   | 5.3    | 8.5    | 4.4    | 18.1    |
| Net income (loss) applicable to noncontrolling interests | —          | —       | —       | —       | —      | —      | —      | —      | —      | —       |
| Net income (loss) applicable to controlling interest     | 45.9       | 44.2    | 33.5    | 38.9    | 39.0   | 36.0   | 5.3    | 8.5    | 4.4    | 18.1    |
| Preferred stock dividends                                | (6.0 )     | —       | (3.3 )  | —       | (6.1 ) | —      | (1.5 ) | —      | —      | —       |
| Net earnings (loss) applicable to common shareholders    | \$39.9     | \$44.2  | \$30.2  | \$38.9  | \$32.9 | \$36.0 | \$3.8  | \$8.5  | \$4.4  | \$18.1  |

AVERAGE  
BALANCE  
SHEET DATA

|                            |          |          |          |          |          |          |                      |         |         |         |
|----------------------------|----------|----------|----------|----------|----------|----------|----------------------|---------|---------|---------|
| Total assets               | \$17,330 | \$16,149 | \$10,880 | \$10,804 | \$12,081 | \$11,235 | \$4,457              | \$4,482 | \$4,171 | \$4,169 |
| Total loans                | 12,402   | 12,799   | 8,350    | 8,285    | 7,909    | 7,794    | 3,280                | 3,305   | 2,169   | 2,408   |
| Total deposits             | 14,814   | 13,621   | 9,219    | 9,221    | 9,595    | 8,712    | 3,721                | 3,745   | 3,626   | 3,548   |
| Shareholder's equity:      |          |          |          |          |          |          |                      |         |         |         |
| Preferred equity           | 480      | 480      | 248      | 262      | 410      | 488      | 275                  | 305     | 242     | 360     |
| Common equity              | 1,430    | 1,285    | 1,291    | 1,224    | 1,661    | 1,544    | 358                  | 332     | 279     | 235     |
| Noncontrolling interests   | —        | —        | —        | —        | —        | —        | —                    | —       | —       | —       |
| Total shareholder's equity | 1,910    | 1,765    | 1,539    | 1,486    | 2,071    | 2,032    | 633                  | 637     | 521     | 595     |
|                            | Vectra   |          | TCBW     |          | Other    |          | Consolidated Company |         |         |         |
|                            | 2012     | 2011     | 2012     | 2011     | 2012     | 2011     | 2012                 | 2011    |         |         |

CONDENSED  
INCOME  
STATEMENT

|  |      |        |     |     |         |          |        |        |  |  |
|--|------|--------|-----|-----|---------|----------|--------|--------|--|--|
| Net interest income                                      | 28.6 | 26.0   | 7.1 | 7.6 | (56.0 ) | (99.1 )  | 432.0  | 416.2  |  |  |
| Provision for loan losses                                | 1.4  | (1.2 ) | 0.8 | 3.2 | 0.1     | 0.1      | 10.9   | 1.3    |  |  |
| Net interest income after provision for loan losses      | 27.2 | 27.2   | 6.3 | 4.4 | (56.1 ) | (99.2 )  | 421.1  | 414.9  |  |  |
| Net impairment losses on investment securities           | —    | —      | —   | —   | (7.1 )  | (5.2 )   | (7.3 ) | (5.2 ) |  |  |
| Loss on sale of investment securities to Parent          | —    | —      | —   | —   | —       | —        | —      | —      |  |  |
| Other noninterest income                                 | 5.6  | 5.3    | 0.7 | 0.8 | (1.6 )  | (4.9 )   | 130.3  | 133.5  |  |  |
| Noninterest expense                                      | 24.7 | 26.3   | 4.3 | 3.9 | 3.6     | (1.0 )   | 401.6  | 416.3  |  |  |
| Income (loss) before income taxes                        | 8.1  | 6.2    | 2.7 | 1.3 | (68.4 ) | (108.3 ) | 142.5  | 126.9  |  |  |
| Income tax expense (benefit)                             | 2.7  | 2.1    | 0.9 | 0.4 | (24.6 ) | (30.2 )  | 51.0   | 54.3   |  |  |
| Net income (loss)  | 5.4  | 4.1    | 1.8 | 0.9 | (43.8 ) | (78.1 )  | 91.5   | 72.6   |  |  |
| Net income (loss) applicable to noncontrolling interests | —    | —      | —   | —   | (0.2 )  | (0.2 )   | (0.2 ) | (0.2 ) |  |  |
| Net income (loss) applicable to                          | 5.4  | 4.1    | 1.8 | 0.9 | (43.6 ) | (77.9 )  | 91.7   | 72.8   |  |  |



|   |       |       |        |     |         |          |         |         |
|---|-------|-------|--------|-----|---------|----------|---------|---------|
| controlling interest                                  |       |       |        |     |         |          |         |         |
| Preferred stock dividends                             | —     | —     | (0.2 ) | —   | (19.4 ) | (43.8 )  | (36.5 ) | (43.8 ) |
| Net earnings (loss) applicable to common shareholders | 5.4   | 4.1   | 1.6    | 0.9 | (63.0 ) | (121.7 ) | 55.2    | 29.0    |
| AVERAGE BALANCE SHEET DATA                            |       |       |        |     |         |          |         |         |
| Total assets  | 2,380 | 2,245 | 871    | 852 | 720     | 1,056    | 52,890  | 50,992  |
| Total loans   | 1,993 | 1,791 | 557    | 586 | 69      | (128 )   | 36,729  | 36,840  |
| Total deposits  | 2,029 | 1,873 | 721    | 671 | (783 )  | (506 )   | 42,942  | 40,885  |
| Shareholder's equity:                                 |       |       |        |     |         |          |         |         |
| Preferred equity                                      | 70    | 70    | 13     | 15  | 93      | 266      | 1,831   | 2,246   |
| Common equity   | 208   | 204   | 78     | 72  | (592 )  | (298 )   | 4,713   | 4,598   |
| Noncontrolling interests                              | —     | —     | —      | —   | (2 )    | (1 )     | (2 )    | (1 )    |
| Total shareholder's equity                            | 278   | 274   | 91     | 87  | (501 )  | (33 )    | 6,542   | 6,843   |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents selected operating segment information for the six months ended June 30, 2012 and 2011:

| (In millions)  | Zions Bank |         | CB&T    |         | Amegy   |         | NBA    |        | NSB    |         |
|--|------------|---------|---------|---------|---------|---------|--------|--------|--------|---------|
|  | 2012       | 2011    | 2012    | 2011    | 2012    | 2011    | 2012   | 2011   | 2012   | 2011    |
| <b>CONDENSED INCOME STATEMENT</b>                        |            |         |         |         |         |         |        |        |        |         |
| Net interest income                                      | \$344.2    | \$349.0 | \$235.7 | \$257.1 | \$184.7 | \$191.3 | \$83.5 | \$86.4 | \$62.2 | \$68.4  |
| Provision for loan losses                                | 60.9       | 60.6    | (6.7 )  | 5.4     | (32.2 ) | 3.1     | 9.0    | 2.5    | (8.3 ) | (17.4 ) |
| Net interest income after provision for loan losses      | 283.3      | 288.4   | 242.4   | 251.7   | 216.9   | 188.2   | 74.5   | 83.9   | 70.5   | 85.8    |
| Net impairment losses on investment securities           | (0.2 )     | —       | —       | —       | —       | —       | —      | —      | —      | —       |
| Loss on sale of investment securities to Parent          | —          | —       | (9.2 )  | (13.5 ) | —       | —       | —      | —      | —      | —       |
| Other noninterest income                                 | 100.9      | 99.1    | 36.9    | 62.2    | 78.9    | 73.3    | 15.5   | 18.0   | 16.4   | 18.7    |
| Noninterest expense                                      | 247.5      | 265.6   | 165.6   | 183.4   | 168.8   | 164.0   | 75.9   | 82.1   | 69.6   | 70.3    |
| Income (loss) before income taxes                        | 136.5      | 121.9   | 104.5   | 117.0   | 127.0   | 97.5    | 14.1   | 19.8   | 17.3   | 34.2    |
| Income tax expense (benefit)                             | 48.1       | 41.2    | 41.3    | 46.5    | 42.1    | 31.9    | 5.5    | 7.8    | 6.0    | 11.9    |
| Net income (loss)  | 88.4       | 80.7    | 63.2    | 70.5    | 84.9    | 65.6    | 8.6    | 12.0   | 11.3   | 22.3    |
| Net income (loss) applicable to noncontrolling interests | —          | —       | —       | —       | —       | —       | —      | —      | —      | —       |
| Net income (loss) applicable to controlling interest     | 88.4       | 80.7    | 63.2    | 70.5    | 84.9    | 65.6    | 8.6    | 12.0   | 11.3   | 22.3    |
| Preferred stock dividends                                | (12.0 )    | —       | (6.6 )  | —       | (12.2 ) | —       | (1.5 ) | —      | —      | —       |
| Net earnings (loss) applicable                           | \$76.4     | \$80.7  | \$56.6  | \$70.5  | \$72.7  | \$65.6  | \$7.1  | \$12.0 | \$11.3 | \$22.3  |

to common  
shareholders  
AVERAGE  
BALANCE  
SHEET DATA

|                                  |          |          |          |          |          |          |         |         |         |         |
|----------------------------------|----------|----------|----------|----------|----------|----------|---------|---------|---------|---------|
| Total assets                     | \$17,293 | \$16,158 | \$10,857 | \$10,785 | \$12,058 | \$11,228 | \$4,462 | \$4,455 | \$4,148 | \$4,134 |
| Total loans                      | 12,468   | 12,814   | 8,347    | 8,316    | 7,892    | 7,683    | 3,280   | 3,289   | 2,186   | 2,416   |
| Total deposits                   | 14,759   | 13,557   | 9,166    | 9,217    | 9,534    | 8,706    | 3,715   | 3,728   | 3,597   | 3,518   |
| Shareholder's<br>equity:         |          |          |          |          |          |          |         |         |         |         |
| Preferred equity                 | 480      | 480      | 255      | 262      | 449      | 488      | 290     | 305     | 251     | 360     |
| Common equity                    | 1,408    | 1,289    | 1,286    | 1,207    | 1,653    | 1,527    | 355     | 328     | 277     | 231     |
| Noncontrolling<br>interests      | —        | —        | —        | —        | —        | —        | —       | —       | —       | —       |
| Total<br>shareholder's<br>equity | 1,888    | 1,769    | 1,541    | 1,469    | 2,102    | 2,015    | 645     | 633     | 528     | 591     |

|  | Vectra |      | TCBW |      | Other |      | Consolidated<br>Company |      |
|--|--------|------|------|------|-------|------|-------------------------|------|
|  | 2012   | 2011 | 2012 | 2011 | 2012  | 2011 | 2012                    | 2011 |

CONDENSED  
INCOME  
STATEMENT

|  |        |        |        |        |           |           |         |         |
|--|--------|--------|--------|--------|-----------|-----------|---------|---------|
| Net interest<br>income                                       | \$54.3 | \$51.8 | \$14.5 | \$15.2 | \$(104.8) | \$(179.2) | \$874.3 | \$840.0 |
| Provision for<br>loan losses                                 | 2.4    | 1.9    | 1.4    | 5.1    | —         | 0.1       | 26.5    | 61.3    |
| Net interest<br>income after<br>provision for<br>loan losses | 51.9   | 49.9   | 13.1   | 10.1   | (104.8 )  | (179.3 )  | 847.8   | 778.7   |
| Net impairment<br>losses on<br>investment<br>securities      | —      | —      | —      | —      | (17.3 )   | (8.3 )    | (17.5 ) | (8.3 )  |
| Loss on sale of<br>investment<br>securities to<br>Parent     | —      | —      | —      | —      | 9.2       | 13.5      | —       | —       |
| Other noninterest<br>income                                  | 11.0   | 10.8   | 1.3    | 1.3    | (13.4 )   | (12.6 )   | 247.5   | 270.8   |
| Noninterest<br>expense                                       | 49.6   | 51.0   | 9.0    | 8.4    | 8.0       | (0.2 )    | 794.0   | 824.6   |
| Income (loss)<br>before income<br>taxes                      | 13.3   | 9.7    | 5.4    | 3.0    | (134.3 )  | (186.5 )  | 283.8   | 216.6   |
| Income tax<br>expense (benefit)                              | 4.3    | 3.1    | 1.8    | 0.9    | (46.2 )   | (51.9 )   | 102.9   | 91.4    |
| Net income (loss)  | 9.0    | 6.6    | 3.6    | 2.1    | (88.1 )   | (134.6 )  | 180.9   | 125.2   |
| Net income (loss)<br>applicable to                           | —      | —      | —      | —      | (0.5 )    | (0.5 )    | (0.5 )  | (0.5 )  |

|   |         |         |        |       |            |            |          |          |
|---|---------|---------|--------|-------|------------|------------|----------|----------|
| noncontrolling interests                              |         |         |        |       |            |            |          |          |
| Net income (loss) applicable to controlling interest  | 9.0     | 6.6     | 3.6    | 2.1   | (87.6 )    | (134.1 )   | 181.4    | 125.7    |
| Preferred stock dividends                             | —       | —       | (0.2 ) | —     | (68.2 )    | (81.9 )    | (100.7 ) | (81.9 )  |
| Net earnings (loss) applicable to common shareholders | \$9.0   | \$6.6   | \$3.4  | \$2.1 | \$(155.8 ) | \$(216.0 ) | \$80.7   | \$43.8   |
| AVERAGE BALANCE SHEET DATA                            |         |         |        |       |            |            |          |          |
| Total assets  | \$2,372 | \$2,249 | \$884  | \$852 | \$661      | \$988      | \$52,735 | \$50,849 |
| Total loans   | 1,963   | 1,787   | 556    | 577   | 68         | (128 )     | 36,760   | 36,754   |
| Total deposits  | 2,028   | 1,873   | 734    | 670   | (876 )     | (532 )     | 42,657   | 40,737   |
| Shareholder's equity:                                 |         |         |        |       |            |            |          |          |
| Preferred equity                                      | 70      | 70      | 14     | 15    | 284        | 182        | 2,093    | 2,162    |
| Common equity   | 205     | 203     | 77     | 71    | (582 )     | (236 )     | 4,679    | 4,620    |
| Noncontrolling interests                              | —       | —       | —      | —     | (2 )       | (1 )       | (2 )     | (1 )     |
| Total shareholder's equity                            | 275     | 273     | 91     | 86    | (300 )     | (55 )      | 6,770    | 6,781    |

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ZIONS BANCORPORATION AND SUBSIDIARIES

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

FORWARD-LOOKING INFORMATION

Statements in this Quarterly Report on Form 10-Q that are based on other than historical data are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations or forecasts of future events and include, among others:

statements with respect to the beliefs, plans, objectives, goals, guidelines, expectations, anticipations, and future financial condition, results of operations and performance of Zions Bancorporation ("the Parent") and its subsidiaries (collectively "the Company," "Zions," "we," "our," "us");

- statements preceded by, followed by or that include the words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "projects," or similar expressions.

These forward-looking statements are not guarantees of future performance, nor should they be relied upon as representing management's views as of any subsequent date. Forward-looking statements involve significant risks and uncertainties and actual results may differ materially from those presented, either expressed or implied, including, but not limited to, those presented in the Management's Discussion and Analysis. Factors that might cause such differences include, but are not limited to:

- the Company's ability to successfully execute its business plans, manage its risks, and achieve its objectives;
- changes in local, national and international political and economic conditions, including without limitation the political and economic effects of the recent economic crisis, delay of recovery from that crisis, economic conditions and fiscal imbalances in the United States and other countries, potential or actual downgrades in rating of sovereign debt issued by the United States and other countries, and other major developments, including wars, military actions, and terrorist attacks;
- changes in financial market conditions, either internationally, nationally or locally in areas in which the Company conducts its operations, including without limitation reduced rates of business formation and growth, commercial and residential real estate development and real estate prices;
- fluctuations in markets for equity, fixed-income, commercial paper and other securities, including availability, market liquidity levels, and pricing;
- changes in interest rates, the quality and composition of the loan and securities portfolios, demand for loan products, deposit flows and competition;
- acquisitions and integration of acquired businesses;
- increases in the levels of losses, customer bankruptcies, bank failures, claims, and assessments;
- changes in fiscal, monetary, regulatory, trade and tax policies and laws, and regulatory assessments and fees, including policies of the U.S. Department of Treasury, the OCC, the Board of Governors of the Federal Reserve Board System, and the FDIC;
- the Company's participation in and exit from governmental programs implemented under the EESA and the ARRA, including the TARP and CPP, and the impact of such programs and related regulations on the Company;
- the impact of executive compensation rules under the Dodd-Frank Act, the EESA and the ARRA, which may impact the ability of the Company and other American financial institutions to retain and recruit executives and other personnel necessary for their businesses and competitiveness;
- the impact of the Dodd-Frank Act and of new international standards known as Basel III, and rules and regulations thereunder, many of which have not yet been promulgated, on our required regulatory capital and liquidity levels, governmental assessments on us, the scope of business activities in which we may engage, the manner in which we engage in such activities, the fees we may charge for certain products and services, and other matters affected by the Dodd-Frank Act and these international standards;

• continuing consolidation in the financial services industry;  
• new legal claims against the Company, including litigation, arbitration and proceedings brought by governmental or self-regulatory agencies, or changes in existing legal matters;

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## ZIONS BANCORPORATION AND SUBSIDIARIES

success in gaining regulatory approvals, when required;  
 changes in consumer spending and savings habits;  
 increased competitive challenges and expanding product and pricing pressures among financial institutions;  
 inflation and deflation;  
 technological changes and the Company's implementation of new technologies;  
 the Company's ability to develop and maintain secure and reliable information technology systems;  
 legislation or regulatory changes which adversely affect the Company's operations or business;  
 the Company's ability to comply with applicable laws and regulations;  
 changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies; and  
 increased costs of deposit insurance and changes with respect to FDIC insurance coverage levels.

Except to the extent required by law, the Company specifically disclaims any obligation to update any factors or to publicly announce the result of revisions to any of the forward-looking statements included herein to reflect future events or developments.

## GLOSSARY OF ACRONYMS

|                |   |          |   |
|----------------|---|----------|---|
| ABS            | Asset-Backed Security                                     | HTM      | Held-to-Maturity                                      |
| ACL            | Allowance for Credit Losses                               | IA       | Indemnification Asset                                 |
| AFS            | Available-for-Sale  | IFRS     | International Financial Reporting Standards           |
| ALCO           | Asset/Liability Committee                                 | ISDA     | International Swap Dealer Association                 |
| ALLL           | Allowance for Loan and Lease Losses                       | LIBOR    | London Interbank Offered Rate                         |
| Amegy          | Amegy Corporation   | Lockhart | Lockhart Funding LLC                                  |
| AOCI           | Accumulated Other Comprehensive Income                    | NBA      | National Bank of Arizona                              |
| ARRA           | American Recovery and Reinvestment Act                    | NOW      | Negotiable Order of Withdrawal                        |
| ASC            | Accounting Standards Codification                         | NRSRO    | Nationally Recognized Statistical Rating Organization |
| ASU            | Accounting Standards Update                               | NSB      | Nevada State Bank                                     |
| ATM            | Automated Teller Machine                                  | OCC      | Office of the Comptroller of the Currency             |
| bps            | Basis Points  | OCI      | Other Comprehensive Income                            |
| CB&T           | California Bank & Trust                                   | OREO     | Other Real Estate Owned                               |
| CDO            | Collateralized Debt Obligation                            | OTC      | Over-the-Counter                                      |
| CDR            | Constant Default Rate                                     | OTTI     | Other-Than-Temporary Impairment                       |
| CLTV           | Combined Loan-to-Value Ratio                              | Parent   | Zions Bancorporation                                  |
| CPP            | Capital Purchase Program                                  | PCI      | Purchased Credit-Impaired                             |
| CPR            | Constant Prepayment Rate                                  | PD       | Probability of Default                                |
| CRE            | Commercial Real Estate                                    | PIK      | Payment in Kind                                       |
| DB             | Deutsche Bank AG  | REIT     | Real Estate Investment Trust                          |
| DBRS           | Dominion Bond Rating Service                              | RULC     | Reserve for Unfunded Lending Commitments              |
| Dodd-Frank Act | Dodd-Frank Wall Street Reform and Consumer Protection Act | SBA      | Small Business Administration                         |
| DTA            | Deferred Tax Asset  | SBIC     | Small Business Investment Company                     |
| DTL            | Deferred Tax Liability                                    | SEC      | Securities and Exchange Commission                    |
| EESA           | Emergency Economic Stabilization Act                      | TARP     | Troubled Asset Relief Program                         |
| FAMC           |   | TCBO     | The Commerce Bank of Oregon                           |

Federal Agricultural Mortgage Corporation,  
or “Farmer Mac”

|      |  |            |                                   |
|------|--|------------|-----------------------------------|
| FASB | Financial Accounting Standards Board     | TCBW       | The Commerce Bank of Washington   |
| FDIC | Federal Deposit Insurance Corporation    | TDR        | Troubled Debt Restructuring       |
| FHLB | Federal Home Loan Bank                   | TRS        | Total Return Swap                 |
| FICO | Fair Isaac Corporation                   | Vectra     | Vectra Bank Colorado              |
| FRB  | Federal Reserve Board                    | Zions Bank | Zions First National Bank         |
| GAAP | Generally Accepted Accounting Principles | ZMSC       | Zions Management Services Company |
| HECL | Home Equity Credit Line                  |            |                                   |



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ZIONS BANCORPORATION AND SUBSIDIARIES

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

The Company has made no significant changes in its critical accounting policies and significant estimates from those disclosed in its 2011 Annual Report on Form 10-K.

RESULTS OF OPERATIONS

The Company reported net earnings applicable to common shareholders of \$55.2 million, or \$0.30 per diluted share for the second quarter of 2012, compared to net earnings applicable to common shareholders of \$29.0 million, or \$0.16 per diluted share for the same prior year period. The significant improvement in net earnings was mainly caused by the following favorable changes:

- \$15.8 million increase in net interest income;
- \$11.5 million decrease in other real estate expense;
- \$7.9 million increase in fixed income securities gains;
- \$7.3 million reduction in preferred stock dividends; and
- \$5.3 million decline in other noninterest expense.

The impact of these items was partially offset by the following:

- \$11.0 million decrease in fair value and nonhedge derivative income;
- \$9.5 million increase in the provision for loan losses;
- \$6.8 million increase in the provision for unfunded lending commitments; and
- \$5.4 million decline in other service charges, commissions, and fees.

Net earnings applicable to common shareholders for the first six months of 2012 were \$80.7 million, or \$0.44 per diluted share, compared to net earnings applicable to common shareholders of \$43.8 million, or \$0.24 per diluted share in the corresponding prior year period. The improved result reflects the following:

- \$34.8 million decrease in the provision for loan losses;
- \$34.3 million increase in net interest income;
- \$27.8 million reduction in other real estate expense;
- \$18.0 million reduction in FDIC premiums; and
- \$10.0 million increase in equity securities gains.

The impact of these items was partially offset by the following:

- \$18.8 million increase in preferred stock dividends;
- \$18.5 million decrease in other noninterest income;
- \$16.6 million decline in fair value and nonhedge derivative income;
- \$12.9 million reduction in other service charges, commissions, and fees;
- \$12.6 million increase in the provision for unfunded lending commitments; and
- \$11.5 million increase in income taxes.

During 2009, the Company executed a subordinated debt modification and exchange transaction. The original discount on the convertible subordinated debt was \$679 million and the remaining discount at June 30, 2012 was \$174 million. It included the following components:

- the fair value discount on the debt; and
- the value of the beneficial conversion feature which added the right of the debt holder to convert the debt into preferred stock.

The discount associated with the convertible subordinated debt is amortized to interest expense using the interest method over the remaining term of the subordinated debt (referred to herein as “discount amortization”). When holders of the convertible subordinated notes convert to preferred stock, the rate of amortization is accelerated by immediately expensing any unamortized discount associated with the converted debt (referred to herein as “accelerated discount amortization”).

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## ZIONS BANCORPORATION AND SUBSIDIARIES

Excluding the impact of these noncash expenses, income before income taxes and subordinated debt conversions for the second quarter of 2012 was \$169.4 million compared to \$199.7 million for the second quarter of 2011.

| (In millions)   | Three Months Ended |                   |                      |                       |                  |
|---|--------------------|-------------------|----------------------|-----------------------|------------------|
|   | June 30,<br>2012   | March 31,<br>2012 | December 31,<br>2011 | September 30,<br>2011 | June 30,<br>2011 |
| Income before income taxes (GAAP)                                       | \$142.5            | \$141.3           | \$136.6              | \$168.1               | \$126.9          |
| Convertible subordinated debt discount amortization                     | 10.7               | 11.1              | 10.8                 | 10.7                  | 11.4             |
| Accelerated convertible subordinated debt discount amortization         | 16.2               | 12.2              | 5.8                  | 7.4                   | 61.4             |
| Income before income taxes and subordinated debt conversions (non-GAAP) | \$169.4            | \$164.6           | \$153.2              | \$186.2               | \$199.7          |

The impact of the conversion of subordinated debt into preferred stock is further discussed in the “Capital Management” section.

## Net Interest Income, Margin and Interest Rate Spreads

Net interest income is the difference between interest earned on interest-earning assets and interest incurred on interest-bearing liabilities. Taxable-equivalent net interest income is the largest portion of Zions' revenue. For the second quarter of 2012, taxable-equivalent net interest income was \$436.6 million, compared to \$447.2 million for the first quarter of 2012, and \$421.2 million in the second quarter of 2011. The tax rate used for calculating all taxable-equivalent adjustments was 35% for all periods presented.

A gauge that we use to measure the Company's success in managing its net interest income is the level and stability of the net interest margin. The net interest margin was 3.62% and 3.73% for the second and first quarters of 2012, respectively, and 3.62% for the second quarter of 2011. The decreased net interest margin for the second quarter of 2012 compared to the first quarter of 2012 resulted primarily from:

- differences in the amount of amortization and accelerated amortization on convertible subordinated debt, see “Capital Management” for further discussion;
- issuances of long-term debt;
- changes in the composition of interest-earning assets;
- interest rate resets on older-vintage, longer-term adjustable rate loans;
- new loans originated at lower rates; and
- lower cost of interest-bearing deposits only partially offsetting the impact of the previous items.

Low-yielding money market investments increased to 16.0% of average interest-earning assets for the second quarter of 2012, compared to 15.1% and 10.3% for the first quarter of 2012 and second quarter of 2011, respectively. The average rate earned on money market investments remained stable when compared to the same prior year period. See “Interest Rate and Market Risk Management” for further discussion of how we manage the portfolios of interest-earning assets, interest-bearing liabilities, and associated risk. The average interest rate earned on net loans and leases, excluding FDIC-supported loans, declined 40 basis points to 5.07% in the second quarter of 2012 from 5.47% in the corresponding prior year period. The two factors that primarily caused this decrease are (1) adjustable rate loans originated in the past resetting to lower rates due to the current repricing index being lower than the rate when the loans were originated, and (2) maturing loans, many of which had rate floors, being replaced with new loans at lower original coupons and/or lower floors compared to the rates at which loans were originated when spreads were higher.

Average total loans and leases were stable when compared to both the first quarter of 2012 and the second quarter of 2011.

Our total cost of funding remained stable in the second quarter of 2012 compared to the first quarter of 2012 and declined compared to second quarter of 2011, due to a favorable change in the mix of funding sources and a decline in rates on interest-bearing liabilities. Average noninterest-bearing deposits increased to \$16.2 billion (35.0% of total average liabilities) in the second quarter of 2012, compared to \$15.7 billion (34.4% of total average liabilities) in the prior quarter and \$14.2 billion (32.1% of total average liabilities) in the second quarter of 2011. Average borrowed funds increased by 2.1% but the average rate paid decreased by 638 basis points from the corresponding prior year period, primarily due to decreased accelerated discount amortization expense resulting from the fact that fewer holders of convertible debt elected to convert their holdings to

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ZIONS BANCORPORATION AND SUBSIDIARIES

preferred stock. Average interest-bearing deposits remained stable when compared to the second quarter of 2011.

The Company believes that its “core net interest margin” is more reflective of its operating performance than the reported net interest margin. We calculate the core net interest margin by excluding the impact of discount amortization on convertible subordinated debt, accelerated discount amortization on convertible subordinated debt, and additional accretion of interest income on acquired loans from the net interest margin. The core net interest margin was 3.72% for the second quarter of 2012 and 4.07% for the second quarter of 2011 due to the previously discussed changes in asset and funding mix and pricing. See “GAAP to non-GAAP Reconciliations” for a reconciliation between the GAAP net interest margin and the non-GAAP core net interest margin.

The spread on average interest-bearing funds was 3.16% and 3.29% for the second and first quarters of 2012, respectively, and 2.90% for the second quarter of 2011. The spread on average interest-bearing funds for the second quarter of 2012 was affected by most of the same factors that had an impact on the net interest margin.

The average interest rate earned on the securities portfolio increased by 99 bps to 3.82% for the second quarter of 2012 from 2.83% in the comparable prior year period. This increase in the rate earned on the securities portfolio is primarily attributable to the change in the mix of securities and one AFS single issuer trust preferred security, which came current with previously deferred interest. In November 2011, the Company sold \$700 million of U.S. Treasury securities, which reduced the balance of lower-yielding securities and increased the yield on the overall securities portfolio. The proceeds were deposited in the Federal Reserve account of a subsidiary bank until the Company made a \$700 million TARP preferred stock redemption in March 2012.

We believe the following factors may positively impact the net interest margin in the next several quarters: the decreased level of nonperforming assets, a smaller balance of low-yielding liquid assets, as we plan to use a portion of those assets to redeem the remaining TARP preferred stock in the second half of 2012, and modest loan growth. We believe the following factors may adversely affect the net interest margin: competitive loan pricing conditions, rate resets on loans originated in a higher interest rate environment, expiration of loans with interest rate floors that are “in the money,” and the discount amortization related to the debt modification transactions, including the accelerated discount amortization to the extent that holders of the modified debt elect to convert their holdings to preferred stock. On balance, we expect continued modest compression of the net interest margin for several quarters.

The unamortized discount on the convertible subordinated debt was \$174 million as of June 30, 2012, or 37.2% of the \$467 million of remaining outstanding convertible subordinated notes, and will be amortized to interest expense over the remaining life of the debt using the interest method.

The Company expects to remain somewhat “asset-sensitive” with regard to interest rate risk. The current period of historically low interest rates has lasted for several years. During this time, the Company has maintained an interest rate risk position that is more asset sensitive than it was prior to the economic crisis, and it expects to maintain this more asset sensitive position for a prolonged period. With interest rates at historically low levels, there is a reduced need to protect against falling interest rates. Our estimates of the Company's actual rate risk position are highly dependent upon a number of assumptions regarding the repricing behavior of various deposit and loan types in response to changes in both short-term and long-term interest rates, balance sheet composition, and other modeling assumptions, as well as the actions of competitors and customers in response to those changes. Further detail on interest rate risk is discussed in “Interest Rate Risk” on page 80 of the Company's 2011 Annual Report on Form 10-K, and in this filing in “Interest Rate Risk.”



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## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Unaudited)

| (In thousands)   | Three Months Ended<br>June 30, 2012 |                                    |                 | Three Months Ended<br>June 30, 2011 |                                    |                 |
|--|-------------------------------------|------------------------------------|-----------------|-------------------------------------|------------------------------------|-----------------|
|  | Average<br>balance                  | Amount of<br>interest <sup>1</sup> | Average<br>rate | Average<br>balance                  | Amount of<br>interest <sup>1</sup> | Average<br>rate |
| <b>ASSETS</b>  |                                     |                                    |                 |                                     |                                    |                 |
| Money market investments                                   | \$7,786,191                         | \$5,099                            | 0.26 %          | \$4,792,704                         | \$3,199                            | 0.27 %          |
| Securities:  |                                     |                                    |                 |                                     |                                    |                 |
| Held-to-maturity   | 797,843                             | 11,339                             | 5.72 %          | 821,768                             | 11,289                             | 5.51 %          |
| Available-for-sale   | 3,084,771                           | 25,603                             | 3.34 %          | 4,031,836                           | 22,788                             | 2.27 %          |
| Trading account  | 18,877                              | 148                                | 3.15 %          | 60,894                              | 538                                | 3.54 %          |
| Total securities   | 3,901,491                           | 37,090                             | 3.82 %          | 4,914,498                           | 34,615                             | 2.83 %          |
| Loans held for sale  | 157,308                             | 1,561                              | 3.99 %          | 144,048                             | 1,525                              | 4.25 %          |
| Loans <sup>2</sup> :                                       |                                     |                                    |                 |                                     |                                    |                 |
| Loans and leases   | 36,067,463                          | 454,688                            | 5.07 %          | 35,960,395                          | 490,083                            | 5.47 %          |
| FDIC-supported loans                                       | 661,597                             | 24,416                             | 14.84 %         | 879,290                             | 34,298                             | 15.65 %         |
| Total loans  | 36,729,060                          | 479,104                            | 5.25 %          | 36,839,685                          | 524,381                            | 5.71 %          |
| Total interest-earning assets                              | 48,574,050                          | 522,854                            | 4.33 %          | 46,690,935                          | 563,720                            | 4.84 %          |
| Cash and due from banks                                    | 1,025,681                           |                                    |                 | 1,036,501                           |                                    |                 |
| Allowance for loan losses                                  | (1,004,879 )                        |                                    |                 | (1,321,098 )                        |                                    |                 |
| Goodwill   | 1,015,129                           |                                    |                 | 1,015,161                           |                                    |                 |
| Core deposit and other intangibles                         | 61,511                              |                                    |                 | 79,950                              |                                    |                 |
| Other assets   | 3,218,519                           |                                    |                 | 3,490,867                           |                                    |                 |
| Total assets   | \$52,890,011                        |                                    |                 | \$50,992,316                        |                                    |                 |
| <b>LIABILITIES</b>   |                                     |                                    |                 |                                     |                                    |                 |
| Interest-bearing deposits:                                 |                                     |                                    |                 |                                     |                                    |                 |
| Savings and NOW  | \$7,435,000                         | 3,207                              | 0.17 %          | \$6,548,676                         | 4,776                              | 0.29 %          |
| Money market   | 14,522,941                          | 10,259                             | 0.28 %          | 14,827,231                          | 17,904                             | 0.48 %          |
| Time   | 3,264,853                           | 6,053                              | 0.75 %          | 3,854,641                           | 9,411                              | 0.98 %          |
| Foreign  | 1,490,695                           | 1,304                              | 0.35 %          | 1,490,636                           | 2,166                              | 0.58 %          |
| Total interest-bearing deposits                            | 26,713,489                          | 20,823                             | 0.31 %          | 26,721,184                          | −34,257                            | 0.51 %          |
| Borrowed funds:  |                                     |                                    |                 |                                     |                                    |                 |
| Securities sold, not yet purchased                         | 6,128                               | 29                                 | 1.90 %          | 37,989                              | 394                                | 4.16 %          |
| Federal funds purchased and security repurchase agreements | 474,026                             | 161                                | 0.14 %          | 660,017                             | 200                                | 0.12 %          |
| Other short-term borrowings                                | 13,290                              | 66                                 | 2.00 %          | 169,574                             | 1,189                              | 2.81 %          |
| Long-term debt   | 2,329,608                           | 65,165                             | 11.25 %         | 1,897,887                           | 106,454                            | 22.50 %         |
| Total borrowed funds                                       | 2,823,052                           | 65,421                             | 9.32 %          | 2,765,467                           | 108,237                            | 15.70 %         |
| Total interest-bearing liabilities                         | 29,536,541                          | 86,244                             | 1.17 %          | 29,486,651                          | 142,494                            | 1.94 %          |
| Noninterest-bearing deposits                               | 16,228,973                          |                                    |                 | 14,163,514                          |                                    |                 |
| Other liabilities  | 582,743                             |                                    |                 | 499,072                             |                                    |                 |
| Total liabilities  | 46,348,257                          |                                    |                 | 44,149,237                          |                                    |                 |
| Shareholders' equity:                                      |                                     |                                    |                 |                                     |                                    |                 |
| Preferred equity   | 1,830,845                           |                                    |                 | 2,246,088                           |                                    |                 |

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|   |              |           |        |              |           |        |
|---|--------------|-----------|--------|--------------|-----------|--------|
| Common equity   | 4,713,318    |           |        | 4,598,336    |           |        |
| Controlling interest shareholders' equity                                       | 6,544,163    |           |        | 6,844,424    |           |        |
| Noncontrolling interests  | (2,409 )     |           |        | (1,345 )     |           |        |
| Total shareholders' equity  | 6,541,754    |           |        | 6,843,079    |           |        |
| Total liabilities and shareholders' equity                                      | \$52,890,011 |           |        | \$50,992,316 |           |        |
| Spread on average interest-bearing funds  |              |           | 3.16 % |              |           | 2.90 % |
| Taxable-equivalent net interest income and net yield on interest-earning assets |              | \$436,610 | 3.62 % |              | \$421,226 | 3.62 % |

<sup>1</sup> Taxable-equivalent rates used where applicable.

<sup>2</sup> Net of unearned income and fees, net of related costs. Loans include nonaccrual and restructured loans.



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## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Unaudited)

| (In thousands)   | Six Months Ended<br>June 30, 2012 |                                    |                 | Six Months Ended<br>June 30, 2011 |                                    |                 |
|--|-----------------------------------|------------------------------------|-----------------|-----------------------------------|------------------------------------|-----------------|
|  | Average<br>balance                | Amount of<br>interest <sup>1</sup> | Average<br>rate | Average<br>balance                | Amount of<br>interest <sup>1</sup> | Average<br>rate |
| <b>ASSETS</b>  |                                   |                                    |                 |                                   |                                    |                 |
| Money market investments                                   | \$7,534,218                       | \$9,727                            | 0.26 %          | \$4,654,089                       | \$6,042                            | 0.26 %          |
| Securities:  |                                   |                                    |                 |                                   |                                    |                 |
| Held-to-maturity   | 798,792                           | 22,338                             | 5.62 %          | 827,353                           | 22,336                             | 5.44 %          |
| Available-for-sale   | 3,089,299                         | 49,307                             | 3.21 %          | 4,069,212                         | 45,828                             | 2.27 %          |
| Trading account  | 30,033                            | 486                                | 3.25 %          | 55,362                            | 990                                | 3.61 %          |
| Total securities   | 3,918,124                         | 72,131                             | 3.70 %          | 4,951,927                         | 69,154                             | 2.82 %          |
| Loans held for sale  | 166,105                           | 3,063                              | 3.71 %          | 152,016                           | 3,126                              | 4.15 %          |
| Loans <sup>2</sup> :                                       |                                   |                                    |                 |                                   |                                    |                 |
| Loans and leases   | 36,073,190                        | 918,518                            | 5.12 %          | 35,838,713                        | 975,698                            | 5.49 %          |
| FDIC-supported loans                                       | 687,237                           | 47,975                             | 14.04 %         | 915,483                           | 67,467                             | 14.86 %         |
| Total loans  | 36,760,427                        | 966,493                            | 5.29 %          | 36,754,196                        | 1,043,165                          | 5.72 %          |
| Total interest-earning assets                              | 48,378,874                        | 1,051,414                          | 4.37 %          | 46,512,228                        | 1,121,487                          | 4.86 %          |
| Cash and due from banks                                    | 1,074,330                         |                                    |                 | 1,057,568                         |                                    |                 |
| Allowance for loan losses                                  | (1,025,794 )                      |                                    |                 | (1,372,116 )                      |                                    |                 |
| Goodwill   | 1,015,129                         |                                    |                 | 1,015,161                         |                                    |                 |
| Core deposit and other intangibles                         | 63,674                            |                                    |                 | 82,646                            |                                    |                 |
| Other assets   | 3,228,840                         |                                    |                 | 3,553,957                         |                                    |                 |
| Total assets   | \$52,735,053                      |                                    |                 | \$50,849,444                      |                                    |                 |
| <b>LIABILITIES</b>   |                                   |                                    |                 |                                   |                                    |                 |
| Interest-bearing deposits:                                 |                                   |                                    |                 |                                   |                                    |                 |
| Savings and NOW  | \$7,317,585                       | 6,814                              | 0.19 %          | \$6,475,370                       | 9,557                              | 0.30 %          |
| Money market   | 14,612,356                        | 22,016                             | 0.30 %          | 14,922,532                        | 36,937                             | 0.50 %          |
| Time   | 3,317,088                         | 12,693                             | 0.77 %          | 3,955,143                         | 20,013                             | 1.02 %          |
| Foreign  | 1,449,552                         | 2,713                              | 0.38 %          | 1,464,950                         | 4,234                              | 0.58 %          |
| Total interest-bearing deposits                            | 26,696,581                        | 44,236                             | 0.33 %          | 26,817,995                        | 70,741                             | 0.53 %          |
| Borrowed funds:  |                                   |                                    |                 |                                   |                                    |                 |
| Securities sold, not yet purchased                         | 14,443                            | 220                                | 3.06 %          | 35,038                            | 737                                | 4.24 %          |
| Federal funds purchased and security repurchase agreements | 501,344                           | 315                                | 0.13 %          | 681,875                           | 431                                | 0.13 %          |
| Other short-term borrowings                                | 30,842                            | 500                                | 3.26 %          | 171,451                           | 2,795                              | 3.29 %          |
| Long-term debt   | 2,160,692                         | 122,372                            | 11.39 %         | 1,918,788                         | 196,326                            | 20.63 %         |
| Total borrowed funds                                       | 2,707,321                         | 123,407                            | 9.17 %          | 2,807,152                         | 200,289                            | 14.39 %         |
| Total interest-bearing liabilities                         | 29,403,902                        | 167,643                            | 1.15 %          | 29,625,147                        | 271,030                            | 1.84 %          |
| Noninterest-bearing deposits                               | 15,960,236                        |                                    |                 | 13,919,432                        |                                    |                 |
| Other liabilities  | 600,987                           |                                    |                 | 523,451                           |                                    |                 |
| Total liabilities  | 45,965,125                        |                                    |                 | 44,068,030                        |                                    |                 |
| Shareholders' equity:                                      |                                   |                                    |                 |                                   |                                    |                 |
| Preferred equity   | 2,093,197                         |                                    |                 | 2,162,287                         |                                    |                 |

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|   |              |           |        |              |           |        |
|---|--------------|-----------|--------|--------------|-----------|--------|
| Common equity   | 4,679,020    |           |        | 4,620,365    |           |        |
| Controlling interest shareholders' equity                                       | 6,772,217    |           |        | 6,782,652    |           |        |
| Noncontrolling interests  | (2,289 )     |           |        | (1,238 )     |           |        |
| Total shareholders' equity  | 6,769,928    |           |        | 6,781,414    |           |        |
| Total liabilities and shareholders' equity                                      | \$52,735,053 |           |        | \$50,849,444 |           |        |
| Spread on average interest-bearing funds  |              |           | 3.22 % |              |           | 3.02 % |
| Taxable-equivalent net interest income and net yield on interest-earning assets |              | \$883,771 | 3.67 % |              | \$850,457 | 3.69 % |

<sup>1</sup> Taxable-equivalent rates used where applicable.

<sup>2</sup> Net of unearned income and fees, net of related costs. Loans include nonaccrual and restructured loans.

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ZIONS BANCORPORATION AND SUBSIDIARIES

Provisions for Credit Losses

The provision for loan losses is the amount of expense that, in our judgment, is required to maintain the allowance for loan losses at an adequate level based upon the inherent risks in the loan portfolio. The provision for unfunded lending commitments is used to maintain the reserve for unfunded lending commitments at an adequate level based upon the inherent risks associated with such commitments. In determining adequate levels of the allowance and reserve, we perform periodic evaluations of the Company's various loan portfolios, the levels of actual charge-offs, credit trends, and external factors. See Note 5 of the Notes to Consolidated Financial Statements and "Credit Risk Management" for more information on how we determine the appropriate level for the allowance for loan and lease losses and the reserve for unfunded lending commitments.

The provision for loan losses for the second quarter of 2012 was \$10.9 million compared to \$1.3 million for the same prior year period. For the first six months of 2012 and 2011, the provision for loan losses was \$26.5 million and \$61.3 million, respectively. The Company continues to exercise caution with regard to the appropriate level of loan loss allowance, given the slow economic recovery. However, during the past twelve months the Company has experienced a significant improvement in credit quality metrics, including lower levels of criticized and classified loans and lower realized loss rates in most loan segments. At June 30, 2012, classified loans were \$1.9 billion, compared to \$2.7 billion at June 30, 2011. Additionally, construction and land development loans declined to 5.7% of the loan portfolio at June 30, 2012 compared to 7.5% a year earlier.

Net loan and lease charge-offs declined to \$43.3 million in the second quarter of 2012 from \$113.2 million in the same prior year period. See "Nonperforming Assets" and "Allowance and Reserve for Credit Losses" for further details.

During the second quarter of 2012, the Company recorded a \$4.9 million provision for unfunded lending commitments compared to \$(1.9) million for the same prior year period. The increased provision is primarily caused by a higher level of unfunded loan commitments. For the first six months of 2012 and 2011, the provision (credit) for unfunded lending commitments was \$1.2 million and \$(11.4) million, respectively. From period to period, the expense related to the reserve for unfunded lending commitments may be subject to sizeable fluctuations due to changes in the timing and volume of loan commitments, originations, and funding, as well as fluctuations in credit quality.

Although classified and nonperforming loan volumes continue to be elevated when compared to long-term historical levels, most measures of credit quality continued to show improvement in the second quarter and first six months of 2012. Barring any significant economic downturn, we expect the Company's credit costs to remain low for the next several quarters. We also anticipate continued reductions in criticized and classified loans of most types, and continued reduction in net charge-offs for the next several quarters, compared to the elevated levels experienced from 2008 through 2011.

Noninterest Income

Noninterest income represents revenues the Company earns for products and services that have no interest rate or yield associated with them. For the second quarter of 2012, noninterest income was \$123.0 million compared to \$128.3 million for the same prior year period.

Other service charges, commissions, and fees, which are comprised of ATM fees, insurance commissions, bankcard merchant fees, debit card interchange fees, cash management fees, lending commitment fees, syndication and servicing fees, and other miscellaneous fees decreased to \$38.6 million from \$44.0 million in the second quarter of 2011. Most of the decline can be attributed to decreased debit card interchange fees, partially offset by growth in loan

fees.

Dividends and other investment income consists of revenue from the Company's bank-owned life insurance program and revenues from other investments. Revenues from other investments include dividends on FHLB stock, Federal Reserve Bank stock, and earnings from unconsolidated affiliates including certain alternative venture investments. For the second quarter of 2012, this income increased to \$21.5 million from \$17.2 million in the comparable prior year period. The increase was primarily the result of higher income from investments in private equity funds, and income from bank-owned life insurance.

Losses from fair value and nonhedge derivatives were \$6.8 million in the second quarter of 2012 compared to a \$4.2 million gain in the same prior year period. The loss in the second quarter of 2012 is primarily the result of expenses related to the TRS agreement. The income in the second quarter of 2011 was mainly attributable to Eurodollar futures contracts.

In the second quarter of 2012, the Company recognized a \$5.5 million gain from fixed income securities while it had recorded a

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\$2.4 million loss in the same prior year period. The gain resulted from the redemption of securities which had been acquired at a discount and from principal payments received for CDOs that had been previously written down.

The Company recognized net credit-related impairment losses on CDO investment securities of \$7.3 million and \$5.2 million in the second quarters of 2012 and 2011, respectively. See "Investment Securities Portfolio" for additional information.

Other noninterest income was \$2.3 million for the second quarter of 2012 compared to \$3.9 million in the same prior year period. The decrease was largely due to a decrease in income from interest-only strips related to guaranteed portions of SBA loans.

During the first half of 2012, noninterest income was \$230.0 million compared to \$262.5 million in the corresponding prior year period. Except for the items discussed below, explanations provided previously for the quarterly changes also apply to the year-to-date fluctuations.

The Company recorded \$9.3 million of equity securities gains during the first six months of 2012 compared to a \$0.7 million loss in the same prior year period. The gains in 2012 are attributable to increases in the values of venture fund investments.

Other noninterest income was \$6.3 million and \$24.9 million for the first six months of 2012 and 2011, respectively. The first quarter of 2011 included an \$18.9 million gain related to certain loans which had been purchased from a failed bank in an FDIC-assisted transaction in 2009. The Company had submitted a bid for these loans, all of which were going to be covered by the FDIC loss sharing agreement. However, certain loans were charged off by the failed bank after the bid date but prior to the ownership transfer, and therefore the amount of the applicable loss sharing coverage had to be negotiated at a later date.

**Noninterest Expense**

Noninterest expense decreased to \$401.7 million, or 3.5%, from the second quarter of 2011. During the past twelve months, the Company made significant progress in resolving problem loans and improving the credit quality of its loan portfolio, which resulted in significantly lower other real estate expense and credit-related expense.

Other real estate expense decreased by 64.0% from the same prior year period. The decrease is primarily due to a 39.4% reduction in OREO balances during the last 12 months and lower write-downs of OREO values during work-out.

Credit-related expense decreased to \$12.4 million in the second quarter of 2012 from \$17.1 million in the second quarter of 2011. The decrease resulted mainly from lower property tax, appraisal, and legal costs incurred during loan workouts.

The provision for unfunded lending commitments is described in the previous discussion under "Provisions for Credit Losses."

Legal and professional services expenses increased by \$4.5 million from the second quarter of 2011, which was related to regulatory and legal matters.

FDIC premiums decreased by 31.4% compared to the same prior year period. The decrease is mainly caused by the change in the premium assessment formulas prescribed by the FDIC and by the improved credit quality of the Company's loan portfolio.

Other noninterest expense for the second quarter of 2012 decreased by \$5.3 million compared to the corresponding prior year period, primarily as a result of a lower write-down of the FDIC indemnification asset attributable to loans purchased from the FDIC in 2009. FDIC-supported loans continued to perform better than expected and the FDIC indemnification asset continues to decline in value, although at a slower rate in the second quarter of 2012 compared to the second quarter of 2011.

For the first six months of 2012, noninterest expense was \$794.0 million compared to \$824.6 million in the same prior year period. Explanations provided previously for the quarterly changes also apply to the year-to-date changes.

Salaries and employee benefits for the first six months of 2012 increased by 1.9% from the comparable period in 2011. This was mainly caused by an increase in base salaries, retirement expense, and payroll taxes, partially offset by lower bonuses.

At June 30, 2012, the Company had 10,447 full-time equivalent employees, compared to 10,606 at December 31, 2011, and 10,548 at June 30, 2011.

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## Income Taxes

The Company's income tax expense for the second quarter of 2012 was \$51.0 million compared to an income tax expense of \$54.3 million for the same period in 2011. The effective income tax rates, including the effects of noncontrolling interests, for the second quarter of 2012 and 2011 were 35.7% and 42.7%, respectively. The tax expense rate for the second quarter of 2012 was lower than the tax rate for the same period in 2011 as a result of a decrease in the nondeductible amount of a portion of the accelerated discount amortization from the conversion of subordinated debt to preferred stock during the second quarter of 2012. As discussed in previous filings, the Company has received federal income tax credits under the U.S. Government's Community Development Financial Institutions Fund that are recognized over a seven-year period from the year of investment. The effect of these tax credits was to reduce income tax expense by \$0.3 million for the second quarter of 2012 and by \$0.6 million for the second quarter of 2011.

The Company had a net deferred tax asset ("DTA") of \$479 million at June 30, 2012, compared to \$509 million at December 31, 2011. The decrease in the DTA resulted primarily from loan charge-offs in excess of loan loss provisions, security and derivative fair value adjustments and the utilization of net operating loss and tax credit carryforward items. The decrease in the deferred tax liability related to the nondeductibility of a portion of the accelerated discount amortization from the conversion of subordinated debt to preferred stock did offset some of the overall decrease in DTA. The Company did not record an additional valuation allowance as of June 30, 2012. In assessing the need for a valuation allowance, both the positive and negative evidence about the realization of DTAs were evaluated. The ultimate realization of DTAs is based on the Company's ability to carry back net operating losses to prior tax periods, tax planning strategies that are prudent and feasible and current forecasts of future taxable income, including the reversal of deferred tax liabilities ("DTLs"), which can absorb losses generated in or carried forward to a particular tax year. After evaluating all of the factors and considering the weight of the positive evidence compared to the negative evidence, management has concluded it is more likely than not that the Company will realize the existing DTAs and that an additional valuation allowance is not needed. In addition, the Company has pursued strategies which may have the effect of mitigating the future possibility of a DTA valuation allowance.

## BALANCE SHEET ANALYSIS

## Interest-Earning Assets

Interest-earning assets are those assets that have interest rates or yields associated with them. One of our goals is to maintain a high level of interest-earning assets relative to total assets, while keeping nonearning assets at a minimum. Interest-earning assets consist of money market investments, securities, loans, and leases. Another one of our goals is to maintain a higher-yielding mix of interest earning assets, such as loans, relative to lower-yielding assets, such as money market investments and securities, while maintaining adequate levels of highly liquid assets. The current period of slow economic growth accompanied by the low loan demand experienced in recent quarters has made it difficult to consistently achieve these goals.

Average interest-earning assets were \$48.4 billion for the first six months of 2012 compared to \$46.5 billion for the same period in 2011. Average interest-earning assets as a percentage of total average assets for the first six months of 2012 was 91.7% compared to 91.5% for the comparable period of 2011.

Average money market investments, consisting of interest-bearing deposits, federal funds sold and security resell agreements, grew by 61.9% to \$7.5 billion for the first six months of 2012 compared to \$4.7 billion for the same period of 2011. Average securities decreased by 20.9%. Average total deposits increased by 4.7% while average loans

and leases remained stable for the first six months of 2012 when compared to the same prior year period. The increase in average money market investments is due to stable loan balances, and therefore the Company has excess cash from increased customer deposits and other funding sources.

#### Investment Securities Portfolio

We invest in securities to generate revenues for the Company; portions of the portfolio are also available as a source of liquidity. The following schedules present a profile of the Company's investment securities portfolio. The amortized cost amounts represent the Company's original cost for the investments, adjusted for accumulated amortization or accretion of any yield adjustments related to the security, and credit impairment losses. The estimated fair value measurement levels and methodology are discussed in detail in Note 9 of the Notes to Consolidated Financial Statements.

We have included selected credit rating information for certain of the investment securities schedules because this information is one indication of the degree of credit risk to which we are exposed, and significant declines in ratings for our investment portfolio could indicate an increased level of risk for the Company. The Dodd-Frank Act required that after July 21, 2011,



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federal agencies could no longer mandate the use of rating agency ratings. Final regulations and effective dates for this provision were issued in June 2012.

| (In millions)  | June 30,<br>2012  |                   |                            | December 31,<br>2011 |                   |                            | June 30,<br>2011  |                   |                            |
|--|-------------------|-------------------|----------------------------|----------------------|-------------------|----------------------------|-------------------|-------------------|----------------------------|
|  | Amortized<br>cost | Carrying<br>value | Estimated<br>fair<br>value | Amortized<br>cost    | Carrying<br>value | Estimated<br>fair<br>value | Amortized<br>cost | Carrying<br>value | Estimated<br>fair<br>value |
| Held-to-maturity:  |                   |                   |                            |                      |                   |                            |                   |                   |                            |
| Municipal securities                                       | \$ 543            | \$ 543            | \$ 558                     | \$ 565               | \$ 565            | \$ 572                     | \$ 567            | \$ 567            | \$ 575                     |
| Asset-backed securities:                                   |                   |                   |                            |                      |                   |                            |                   |                   |                            |
| Trust preferred securities                                 | 263               | 209               | 145                        | 263                  | 222               | 144                        | 264               | 240               | 173                        |
| banks and insurance  |                   |                   |                            |                      |                   |                            |                   |                   |                            |
| Other  | 23                | 21                | 12                         | 24                   | 21                | 14                         | 26                | 23                | 15                         |
|  | 829               | 773               | 715                        | 852                  | 808               | 730                        | 857               | 830               | 763                        |
| Available-for-sale:  |                   |                   |                            |                      |                   |                            |                   |                   |                            |
| U.S. Treasury securities                                   | 4                 | 5                 | 5                          | 4                    | 5                 | 5                          | 706               | 706               | 706                        |
| U.S. Government agencies and corporations:                 |                   |                   |                            |                      |                   |                            |                   |                   |                            |
| Agency securities  | 139               | 144               | 144                        | 153                  | 158               | 158                        | 177               | 183               | 183                        |
| Agency guaranteed mortgage-backed securities               | 476               | 497               | 497                        | 535                  | 553               | 553                        | 598               | 614               | 614                        |
| Small Business Administration loan-backed securities       |                   |                   |                            |                      |                   |                            |                   |                   |                            |
| Municipal securities                                       | 118               | 119               | 119                        | 121                  | 122               | 122                        | 136               | 138               | 138                        |
| Asset-backed securities:                                   |                   |                   |                            |                      |                   |                            |                   |                   |                            |
| Trust preferred securities                                 | 1,758             | 927               | 927                        | 1,794                | 930               | 930                        | 1,860             | 1,099             | 1,099                      |
| banks and insurance  |                   |                   |                            |                      |                   |                            |                   |                   |                            |
| Trust preferred securities – real estate investment trusts | 40                | 14                | 14                         | 40                   | 19                | 19                         | 40                | 19                | 19                         |
| Auction rate securities                                    | 7                 | 7                 | 7                          | 71                   | 70                | 70                         | 92                | 91                | 91                         |
| Other  | 55                | 46                | 46                         | 65                   | 50                | 50                         | 70                | 54                | 54                         |
|  | 3,777             | 2,955             | 2,955                      | 3,936                | 3,068             | 3,068                      | 4,700             | 3,921             | 3,921                      |
| Mutual funds and other                                     | 213               | 213               | 213                        | 163                  | 163               | 163                        | 163               | 164               | 164                        |
|  | 3,990             | 3,168             | 3,168                      | 4,099                | 3,231             | 3,231                      | 4,863             | 4,085             | 4,085                      |
| Total  | \$4,819           | \$ 3,941          | \$ 3,883                   | \$4,951              | \$ 4,039          | \$ 3,961                   | \$5,720           | \$ 4,915          | \$ 4,848                   |

The amortized cost of investment securities on June 30, 2012 decreased by 2.7% and 15.8% from the balances on December 31, 2011, and June 30, 2011, respectively. The decrease from June 30, 2011 to June 30, 2012 was mostly due to sales of U.S. Treasury securities and sales and redemptions of bank and insurance company trust preferred securities, partially offset by increased investments in SBA loan-backed securities.

As of June 30, 2012, 6.6% of the \$3.2 billion fair value of available-for-sale securities portfolio was valued at Level 1, 61.7% was valued at Level 2, and 31.7% was valued at Level 3 under the GAAP fair value accounting valuation hierarchy. At December 31, 2011, 5.0% of the \$3.2 billion fair value of available-for-sale securities portfolio was valued at Level 1, 61.6% was valued at Level 2, and 33.4% was valued at Level 3. See Note 9 of the Notes to Consolidated Financial Statements for further discussion of fair value accounting.

The amortized cost of available-for-sale investment securities valued at Level 3 was \$1,874 million at June 30, 2012 and the fair value of these securities was \$1,005 million. The securities valued at Level 3 were comprised of ABS CDOs and auction rate securities. For these Level 3 securities, net pretax unrealized loss recognized in OCI at June 30, 2012 was \$869 million. As of June 30, 2012, we believe that we will receive on settlement or maturity at least the amortized cost amounts of the Level 3 available-for-sale securities. This expectation applies to both those securities for which OTTI has been recognized and those for which no OTTI has been recognized.

The following schedule presents the Company's CDOs according to performing tranches without credit impairment and

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nonperforming tranches. These CDOs are a subset of our asset-backed securities and consist of both HTM and AFS securities.

| (Amounts in millions)                        | June 30, 2012   |            |                |                | Net unrealized losses recognized in OCI <sup>1</sup> | Weighted average discount rate <sup>2</sup> | % of carrying value to par |                | Change |
|--|-----------------|------------|----------------|----------------|--|---|----------------------------|----------------|--------|
|  | No. of tranches | Par amount | Amortized cost | Carrying value |  |   | June 30, 2012              | March 31, 2012 |        |
| Performing CDOs                              |                 |            |                |                |  |   |                            |                |        |
| Predominantly bank CDOs                      | 30              | \$904      | \$805          | \$572          | \$(233)  | 7.02%                                       | 63%                        | 66%            | -3%    |
| Insurance-only CDOs                          | 21              | 450        | 445            | 330            | (115)  | 7.21%                                       | 73%                        | 74%            | -1%    |
| Other CDOs                                   | 7               | 82         | 71             | 62             | (9)  | 7.54%                                       | 76%                        | 78%            | -2%    |
| Total performing CDOs                        | 58              | 1,436      | 1,321          | 964            | (357)  | 7.11%                                       | 67%                        | 69%            | -2%    |
| Nonperforming CDOs <sup>3</sup>              |                 |            |                |                |  |   |                            |                |        |
| Deferring interest, but no credit impairment | 3               | 72         | 72             | 21             | (51)   | 12.36%                                      | 29%                        | 25%            | 4%     |
| Credit impairment prior to last 12 months    | 33              | 595        | 438            | 136            | (302)  | 12.84%                                      | 23%                        | 21%            | 2%     |
| Credit impairment during last 12 months      | 23              | 444        | 278            | 72             | (206)  | 13.37%                                      | 16%                        | 14%            | 2%     |
| Total nonperforming CDOs                     | 59              | 1,111      | 788            | 229            | (559)  | 13.02%                                      | 21%                        | 19%            | 2%     |
| Total CDOs                                   | 117             | \$2,547    | \$2,109        | \$1,193        | \$(916)  | 9.69%                                       | 47%                        | 48%            | -1%    |
| December 31, 2011                            |                 |            |                |                |  |   |                            |                |        |
| (Amounts in millions)                        | No. of tranches | Par amount | Amortized cost | Carrying value | Net unrealized losses recognized in OCI <sup>1</sup> | Weighted average discount rate <sup>2</sup> | % of carrying value to par |                |        |
| Performing CDOs                              |                 |            |                |                |  |   |                            |                |        |
| Predominantly bank CDOs                      | 32              | \$956      | \$846          | \$615          | \$(231)  | 7.06%                                       | 64%                        |                |        |
| Insurance-only CDOs                          | 21              | 455        | 449            | 359            | (90)   | 5.75%                                       | 79%                        |                |        |
| Other CDOs                                   | 7               | 86         | 74             | 65             | (9)  | 6.87%                                       | 76%                        |                |        |
| Total performing CDOs                        | 60              | 1,497      | 1,369          | 1,039          | (330)  | 6.65%                                       | 69%                        |                |        |
| Nonperforming CDOs <sup>3</sup>              |                 |            |                |                |  |   |                            |                |        |
| Deferring interest, but no credit            | 3               | 72         | 72             | 17             | (55)   | 15.24%                                      | 24%                        |                |        |

|                       |     |         |         |         |          |        |     |
|-----------------------|-----|---------|---------|---------|----------|--------|-----|
| impairment            |     |         |         |         |          |        |     |
| Credit impairment     |     |         |         |         |          |        |     |
| prior to last 12      | 37  | 676     | 498     | 120     | (378 )   | 15.31% | 18% |
| months                |     |         |         |         |          |        |     |
| Credit impairment     |     |         |         |         |          |        |     |
| during last 12 months | 18  | 365     | 217     | 43      | (174 )   | 16.17% | 12% |
| Total nonperforming   |     |         |         |         |          |        |     |
| CDOs                  | 58  | 1,113   | 787     | 180     | (607 )   | 15.59% | 16% |
| Total CDOs            | 118 | \$2,610 | \$2,156 | \$1,219 | \$(937 ) | 10.46% | 47% |

<sup>1</sup> Other comprehensive income, amounts presented are pretax.

<sup>2</sup> Margin over LIBOR

<sup>3</sup> Defined as either deferring current interest (“PIKing”) or OTTI.

No significant assumption changes were made during the second quarter of 2012 to the internal model used to estimate fair values of CDOs. A pool specific prepayment rate continues to be calculated with reference to both (a) the percentage of each pool's performing collateral consisting of small banks, as well as, (b) the percentage which consists of collateral from large banks with investment grade ratings. Such large banks are assumed to prepay fully by the end of 2015. After 2015, each pool is assumed to prepay at a 3% annual rate.

For the second quarter of 2012, the resulting average annual prepayment rate assumption for pools which include both large and small banks is 7.95% for each year through 2015, followed by an annual prepayment rate assumption of 3% thereafter. For pools without large banks, we assume a 3% annual prepayment rate.

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For the best performing banks, the floors on the short-term and medium-term probabilities of default remain at 30 bps and 48 bps, respectively. The assumed long-term probabilities of default remain at 65 bps.

## Valuation Sensitivity of Level 3 Bank and Insurance CDOs

The following schedule sets forth the sensitivity of the current CDO fair values, using the licensed third-party model, to changes in the most significant assumptions utilized in the model.

(Amounts in millions)

| Fair value at June 30, 2012   | Held-to-maturity |            | Available-for-sale |            |
|---|------------------|------------|--------------------|------------|
|   | Incremental      | Cumulative | Incremental        | Cumulative |
|   | \$ 145           |            | \$ 905             |            |
| Currently Modeled Assumptions   |                  |            |                    |            |
| Expected collateral credit losses <sup>1</sup>  |                  |            |                    |            |
| Loss percentage from currently defaulted or deferring collateral <sup>2</sup>   |                  | 4.5 %      |                    | 20.2 %     |
| Projected loss percentage from currently performing collateral  |                  |            |                    |            |
| 1-year  | 0.3 %            | 4.9 %      | 0.5 %              | 20.7 %     |
| years 2-5   | 1.6 %            | 6.5 %      | 1.2 %              | 21.9 %     |
| years 6-30  | 10.9 %           | 17.4 %     | 9.1 %              | 31.0 %     |
| Discount rate <sup>3</sup>  |                  |            |                    |            |
| Weighted average spread over LIBOR  | 759              | bp         | 1,021              | bp         |
| Sensitivity of Modeled Assumptions  |                  |            |                    |            |
| Increase (decrease) in fair value due to increase in projected loss percentage from currently performing collateral <sup>4</sup>  |                  |            |                    |            |
| 25%   | \$(0.6 )         |            | \$(6.4 )           |            |
| 50%   | (1.3 )           |            | (12.3 )            |            |
| 100%  | (2.5 )           |            | (24.4 )            |            |
| Increase (decrease) in fair value due to increase in projected loss percentage from currently performing collateral <sup>4</sup> and the immediate default of all deferring collateral with no recovery |                  |            |                    |            |
| 25%   | \$(6.7 )         |            | \$(122.5 )         |            |
| 50%   | (7.2 )           |            | (127.9 )           |            |
| 100%  | (8.1 )           |            | (139.3 )           |            |
| Increase (decrease) in fair value due to increase in discount rate  |                  |            |                    |            |
| +100 bp   | \$(13.4 )        |            | \$(60.7 )          |            |
| + 200 bp  | (25.2 )          |            | (114.2 )           |            |
| Increase (decrease) in fair value due to increase in Forward LIBOR Curve  |                  |            |                    |            |
| + 100 bp  | \$7.7            |            | \$44.2             |            |
| Increase (decrease) in fair value due to:   |                  |            |                    |            |
| increase in prepayment assumption <sup>5</sup>  | +1%              | \$3.3      | \$29.9             |            |
| increase in prepayment assumption <sup>6</sup>  | +2%              | 6.5        | 59.1               |            |

<sup>1</sup> The Company uses an incurred credit loss model which specifies cumulative losses at the 1-year, 5-year, and 30-year points from the date of valuation. These current and projected losses are reflected in the CDO's fair value.

<sup>2</sup> Weighted average percentage of collateral that is defaulted due to bank failures, or deferring payment as allowed under the terms of the security, including a 0% recovery rate on defaulted collateral and a credit-specific probability of default on deferring collateral which ranges from 2.18% to 100%.

<sup>3</sup>The discount rate is a spread over the LIBOR forward curve at the date of valuation.

<sup>4</sup> Percentage increase is applied to incremental projected loss percentages from currently performing collateral. For example, the 50% and 100% stress scenarios for AFS securities would result in cumulative 30-year losses of  $36.4\% = 31.0\% + 50\%(0.5\% + 1.2\% + 9.1\%)$  and  $41.9\% = 31.0\% + 100\%(0.5\% + 1.2\% + 9.1\%)$ , respectively.

<sup>5</sup> Prepayment rate for small banks increased to 4% per year for each year through maturity.

<sup>6</sup> Prepayment rate for small banks increased to 5% per year for each year through maturity.

During the second quarter of 2012, the portfolio fair value was generally unchanged. Lower LIBOR forward rates decreased fair values. This decrease was offset by increases in fair values due to reduced discount rates for junior tranches consistent with

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market trade data on our tranches.

## Bank Collateral Deferrals

The Company's loss and recovery experience as of June 30, 2012 (and our Level 3 modeling assumption) is essentially a 100% loss on defaults on bank collateral CDOs, although we have, to date, received several, generally small, recoveries on defaults. Our experience with deferring bank collateral has been that of all collateral that has elected to defer beginning in 2007 or thereafter, 48% has defaulted, and approximately 39% remains within the allowable deferral period. Additionally, 53 issuing banks, with collateral aggregating to 13% of all deferrals and 25% of all surviving deferrals, have either come current and resumed interest payments on their trust preferred securities or have announced that they intend to do so at the next payment date. Banks may come current on their trust preferred securities for one or more quarters and then re-defer. This pattern has occurred in five of the 53 banks which had resumed payment after deferring. Further information on the Company's valuation process is detailed in Note 9 of the Notes to Consolidated Financial Statements.

The following schedules provide additional information on the below-investment-grade rated bank and insurance trust preferred CDOs' portion of the AFS and HTM portfolios. The schedules reflect data and assumptions that are included in the calculations of fair value and OTTI. The schedules utilize the lowest rating assigned by any rating agency to identify those securities below investment grade. The schedules segment the securities by whether or not they have been determined to have OTTI, and by original ratings level to provide granularity on the seniority level of the securities and the distribution of unrealized losses. The best and worst pool-level statistic for each original ratings subgroup is presented, not the best and worst single security within the original ratings grouping. The number of issuers and number of currently performing issuers noted in the later schedule are from the same security. The remaining statistics may not be from the same security.

## BANK AND INSURANCE TRUST PREFERRED CDO VALUES CURRENTLY RATED BELOW INVESTMENT GRADE –

## SORTED BY WHETHER OTTI HAS BEEN TAKEN AND BY ORIGINAL RATINGS

As of June 30, 2012

|   |                      |                | Total     |                |                      |                 | Credit loss  |              | Valuation                        |
|---|----------------------|----------------|-----------|----------------|----------------------|-----------------|--------------|--------------|----------------------------------|
| (Dollar amounts in millions)                        | Number of securities | % of portfolio | Par value | Amortized cost | Estimated fair value | Unrealized loss | Current year | Life-to-date | losses <sup>1</sup> Life-to-date |
| Original ratings of securities, no OTTI recognized: |                      |                |           |                |                      |                 |              |              |                                  |
| Original AAA  | 27                   | 38.4           | % \$894.1 | \$794.5        | \$562.9              | \$(231.6 )      | \$—          | \$—          | \$(140.4 )                       |
| Original A  | 18                   | 18.3           | % 426.5   | 426.6          | 220.4                | (206.2 )        | —            | —            | —                                |
| Original BBB  | 5                    | 2.0            | % 46.5    | 46.5           | 21.1                 | (25.4 )         | —            | —            | —                                |
| Total Non-OTTI                                      |                      | 58.7           | % 1,367.1 | 1,267.6        | 804.4                | (463.2 )        | —            | —            | (140.4 )                         |
| Original ratings of securities, OTTI recognized:    |                      |                |           |                |                      |                 |              |              |                                  |
| Original AAA  | 1                    | 2.1            | % 50.0    | 43.4           | 16.5                 | (26.9 )         | —            | (4.8 )       | (1.9 )                           |
| Original A  | 44                   | 36.3           | % 844.5   | 605.6          | 175.8                | (429.8 )        | (17.5 )      | (241.2 )     | —                                |
| Original BBB  | 6                    | 2.9            | % 67.1    | 24.1           | 3.2                  | (20.9 )         | (0.1 )       | (42.8 )      | —                                |
| Total OTTI  |                      | 41.3           | % 961.6   | 673.1          | 195.5                | (477.6 )        | (17.6 )      | (288.8 )     | (1.9 )                           |

Total noninvestment grade bank and insurance CDOs 100.0 % \$2,328.7 \$1,940.7 \$999.9 \$(940.8 ) \$(17.6) \$(288.8) \$(142.3 )

| (In millions)                                       | Average amount of each security held <sup>2</sup> |                |                      |                        |
|---|---|----------------|----------------------|------------------------|
|   | Par value   | Amortized cost | Estimated fair value | Unrealized gain (loss) |
| Original ratings of securities, no OTTI recognized: |   |                |                      |                        |
| Original AAA  | \$31.9  | \$28.4         | \$20.1               | \$(8.3 )               |
| Original A  | 16.4  | 16.4           | 8.5                  | (7.9 )                 |
| Original BBB  | 9.3   | 9.3            | 4.2                  | (5.1 )                 |
| Original ratings of securities, OTTI recognized:    |   |                |                      |                        |
| Original AAA  | 50.0  | 43.4           | 16.5                 | (26.9 )                |
| Original A  | 15.6  | 11.2           | 3.3                  | (8.0 )                 |
| Original BBB  | 11.2  | 4.0            | 0.5                  | (3.5 )                 |

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<sup>1</sup> Valuation losses relate to securities purchased from Lockhart Funding LLC prior to its consolidation in June 2009.

<sup>2</sup> The Company may have more than one holding of the same security.

**POOL LEVEL PERFORMANCE AND PROJECTIONS FOR BELOW-INVESTMENT-GRADE RATED-BANK AND INSURANCE TRUST PREFERRED CDOs**

As of June 30, 2012

|   | Current lowest rating | # of issuers in collateral pool | # of issuers currently performing <sup>1</sup> | % of original collateral defaulted | % of original collateral deferring <sup>2</sup> | Subordination as % of performing collateral <sup>3</sup> | Collateralization % <sup>5</sup> | Present value of expected cash flows discounted at effective rate as a % of par <sup>6</sup> | Lifetime additional projected loss from performing collateral <sup>7</sup> |
|---|-----------------------|---------------------------------|--|------------------------------------|---|--|----------------------------------|--|--|
| Original Ratings of Securities, Non-OTTI: |                       |                                 |  |                                    |   |  |                                  |  |  |
| Original AAA                              |                       |                                 |  |                                    |   |  |                                  |  |  |
| Best                                      | BB                    | 23                              | 21   | 2.43 %                             | 4.26 %  | 80.92 %  | 683.95 %                         | 100 %  | —  |
| Weighted average                          |                       |                                 |  | 15.94 %                            | 13.29 %   | 41.73 %  | 255.46 %                         | 100 %  | 10.24 %  |
| Worst                                     | CC                    | 15                              | 7  | 28.71 %                            | 26.03 %   | 12.75 %  | 162.32 %                         | 100 %  | 13.95 %  |
| Original A                                |                       |                                 |  |                                    |   |  |                                  |  |  |
| Best                                      | B                     | 33                              | 33   | —                                  | —   | 27.88 %  | 353.68 %                         | 100 %  | 10.87 %  |
| Weighted average                          |                       |                                 |  | 2.81 %                             | 6.41 %  | 13.32 %  | 151.63 %                         | 100 %  | 12.46 %  |
| Worst                                     | C                     | 6                               | 4  | 10.31 %                            | 22.31 %   | (8.44) % <sup>8</sup>                                    | 75.94 % <sup>9</sup>             | 100 %  | 13.70 %  |
| Original BBB                              |                       |                                 |  |                                    |   |  |                                  |  |  |
| Best                                      | CCC                   | 33                              | 33   | —                                  | —   | 17.10 %  | 355.80 %                         | 100 %  | 11.34 %  |
| Weighted average                          |                       |                                 |  | 1.33 %                             | 3.79 %  | 10.35 %  | 256.02 %                         | 100 %  | 12.61 %  |
| Worst                                     | CC                    | 24                              | 21   | 4.00 %                             | 9.26 %  | 3.24 %   | 154.05 %                         | 100 %  | 13.70 %  |
| Original Ratings of Securities, OTTI:     |                       |                                 |  |                                    |   |  |                                  |  |  |
| Original AAA                              |                       |                                 |  |                                    |   |  |                                  |  |  |
| Single Security                           | CCC                   | 43                              | 23   | 16.89 %                            | 28.66 %   | 29.30 %  | 232.15 %                         | 91 %   | 8.72 %   |
| Original A                                |                       |                                 |  |                                    |   |  |                                  |  |  |
| Best                                      | CC                    | 36                              | 31   | —                                  | 1.89 %  | 46.24 %  | 186.02 %                         | 100 %  | —  |
| Weighted average                          |                       |                                 |  | 11.95 %                            | 16.88 %   | (14.53) %  | 66.79 %                          | 82 %   | 11.11 %  |
| Worst                                     | C                     | 3                               | —  | 33.29 %                            | 31.04 %   | (50.03) %  | 21.90 %                          | 42 %   | 15.93 %  |
| Original BBB                              |                       |                                 |  |                                    |   |  |                                  |  |  |
| Best                                      | C                     | 42                              | 36   | 6.28 %                             | 6.53 %  | (5.07) %   | 68.95 %                          | 100 %  | 8.72 %   |
| Weighted average                          |                       |                                 |  | 13.75 %                            | 21.77 %   | (28.21) %  | (148.89) %                       | 51 %   | 10.61 %  |

|       |   |    |    |         |         |           |            |   |         |
|-------|---|----|----|---------|---------|-----------|------------|---|---------|
| Worst | C | 34 | 14 | 16.89 % | 29.27 % | (51.43 )% | (277.86 )% | — | 13.53 % |
|-------|---|----|----|---------|---------|-----------|------------|---|---------|

<sup>1</sup> Excludes both defaulted issuers and issuers that have elected to defer payment of current interest.

<sup>2</sup> Collateral is identified as defaulted when a regulator closes an issuing bank.

<sup>3</sup> Collateral is identified as deferring when the Company becomes aware that an issuer has announced or elected to defer interest payment on trust preferred debt.

<sup>4</sup> Utilizes the Company's loss assumption of 100% on defaulted collateral and the Company's issuer specific loss assumption of from 2.18% to 100% dependent on credit for each deferring piece of collateral. "Subordination" in the schedule includes the effects of seniority level within the CDOs' liability structure, the Company's loss and recovery rate assumption for deferring but not defaulted collateral and a 0% recovery rate for defaulted collateral. The numerator is all collateral less the sum of (i) 100% of the defaulted collateral, (ii) the sum of the projected net loss amounts for each piece of deferring but not defaulted collateral and (iii) the amount of each CDO's debt which is either senior to or pari passu with our security's priority level. The denominator is all collateral less the sum of (i) 100% of the defaulted collateral and (ii) the sum of the projected net loss amounts for each piece of deferring but not defaulted collateral.

<sup>5</sup> Utilizes the Company's loss assumption of 100% on defaulted collateral and the Company's issuer specific loss assumption ranging from 2.18% to 100% dependent on credit for each deferring piece of collateral. "Collateralization" in the schedule identifies the portion of a CDO tranche that is backed by nondefaulted collateral. The numerator is all collateral less the sum of (i) 100% of the defaulted collateral, (ii) the sum of the projected net loss amounts for each piece of deferring but not defaulted collateral and (iii) the amount of each CDO's debt which is senior to our security's priority level. The denominator

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is the par amount of the tranche. Par is defined as the original par less any principal paydowns.

<sup>6</sup> For OTTI securities, this statistic approximates the extent of OTTI credit losses taken.

<sup>7</sup> This is the same statistic presented in the preceding sensitivity schedule and incorporated in the fair value and OTTI calculations. The statistic is the sum of incremental projected loss percentages from currently paying collateral for year one, years two through five and years six through thirty.

<sup>8</sup> Negative subordination is projected to be remedied by excess spread prior to maturity.

<sup>9</sup> Collateralization shortfall is projected to be remedied by excess spread prior to maturity.

Certain original A-rated securities described in the previous schedule currently have negative subordination and are therefore under-collateralized, and yet are not identified as having OTTI. This is because our cash flow projections for these securities show negative subordination being cured prior to the securities' maturities. The collateral that backs a tranche can increase if the more senior liabilities of the CDO decrease. This occurs when collateral deterioration due to defaults and deferral triggers alternative waterfall provisions for the cash flow. A structural credit protection feature reroutes cash (interest collections) from the more junior classes of debt and income notes to pay down the principal of the most senior liabilities. As the most senior liabilities are paid down while the collateral remains unchanged (and if there are no additional unexpected defaults), the next level of tranches becomes better secured. The rerouting continues to divert cash away from the most junior classes of debt or income notes and gives better security to our tranche. Our cash flow projections predict full payment of amortized cost and interest.

As shown in the table below, 23 of our CDO securities, representing 42% of the portfolio's fair value at June 30, 2012, were upgraded by one or more NRSROs during the first six months of 2012. These upgrades were attributed to improvements in over-collateralization ratios and deleveraging combined with less severe rating agency assumptions and methodology.

## BANK AND INSURANCE TRUST PREFERRED CDOs

June 30, 2012

| (In millions)                            | No. of securities | Par amount | Amortized cost | Fair value |
|--|-------------------|------------|----------------|------------|
| Year-to-date rating changes <sup>1</sup> |                   |            |                |            |
| Upgrade                                  | 23                | \$706      | \$642          | \$447      |
| No change                                | 73                | 1,445      | 1,150          | 501        |
| Downgrade                                | 9                 | 236        | 203            | 106        |
|  | 105               | \$2,387    | \$1,995        | \$1,054    |

<sup>1</sup> By any NRSRO

## Other-Than-Temporary Impairment – Investments in Debt Securities

We review investments in debt securities on an ongoing basis for the presence of OTTI. For securities where an internal income-based cash flow model or third party valuation service produces a loss-adjusted expected cash flow for the security, the presence of OTTI is identified and the amount of the credit component of OTTI is calculated by discounting this loss-adjusted cash flow at the security specific effective interest rate and comparing that value to the Company's amortized cost of the security.

We review the relevant facts and circumstances each quarter in order to assess our intentions regarding any potential sales of securities, as well as the likelihood that we would be required to sell prior to recovery of amortized cost. To date, for each security whose fair value is below amortized cost, we have determined that we do not intend to sell the security, and that it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis. We then evaluate the difference between the fair value and the amortized cost of each security

and identify if any of the difference is due to credit. The credit component of the difference is recognized in earnings and the amortized cost is written down for each security found to have OTTI.

For some CDO tranches, for which we previously recorded OTTI, expected future cash flows have remained stable or have slightly improved subsequent to the quarter that OTTI was identified and recorded. For other CDO tranches, an adverse change in the expected future cash flow has resulted in the recording of additional OTTI. In both situations, while a large difference may remain between fair value and amortized cost, the difference is not due to credit. The expected future cash flow

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substantiates the return of the full amortized cost as described below. The primary drivers of unrealized losses in these CDOs are further discussed in Note 4 of the Notes to Consolidated Financial Statements. We utilize a present value technique to both identify the OTTI present in the CDO tranches and to estimate fair value.

During the second quarter of 2012, the Company recognized credit-related net impairment losses on CDOs of \$7.3 million, compared to losses of \$5.2 million in the same prior year period. These same amounts for the first six months of 2012 and 2011, were \$17.5 million and \$8.3 million, respectively. The OTTI was attributable to credit deterioration at a small number of banks.

**Exposure to State and Local Governments**

The Company provides multiple services to state and local governments (referred together as “municipalities”), including deposit services, loans, investment banking services, and by investing in securities issued by the municipalities.

The following table summarizes the Company’s exposure to state and local municipalities:

| (In millions)                                | June 30,<br>2012 | December 31,<br>2011 |
|--|------------------|----------------------|
| Loans and leases                             | \$477            | \$441                |
| Held-to-maturity – municipal securities      | 543              | 565                  |
| Available-for-sale – municipal securities    | 119              | 122                  |
| Available-for-sale – auction rate securities | 7                | 70                   |
| Trading account – municipal securities       | 15               | 9                    |
| Unused commitments to extend credit          | 88               | 103                  |
| Total direct exposure to municipalities      | \$ 1,249         | \$ 1,310             |

Company policy requires that extensions of credit to municipalities be subjected to specific underwriting standards. At June 30, 2012 all of the outstanding municipal loans were performing and none were on nonaccrual. A significant amount of the municipal loan and lease portfolio is secured by real estate and equipment, and approximately 95% of the outstanding credits were originated by Amegy, CB&T, Vectra, and ZFNB. See Note 5 of the Notes to Consolidated Financial Statements for additional information about the credit quality of these municipal loans.

All municipal securities are reviewed quarterly for OTTI, refer to Note 4 of the Notes to Consolidated Financial Statements for more information. HTM securities consist of unrated bonds issued by small local governmental entities and are purchased through private placements, often in situations in which one of the Company's subsidiaries has acted as a financial advisor to the municipality. Prior to purchase, the issuers of municipal securities are evaluated by the Company for their creditworthiness, and some of the securities are guaranteed by third parties. Of the AFS municipal securities, 94% are rated by major credit rating agencies and were rated investment grade as of June 30, 2012. Municipal securities in the trading account are held for resale to customers. The Company also underwrites municipal bonds and sells most of them to outside customers.

**European Exposure**

The Company is monitoring global economic conditions and is aware of concerns over the creditworthiness of the governments of Portugal, Ireland, Italy, Greece, and Spain. The Company has not granted loans to and does not own securities issued by these governments, and does not have any material exposure to companies or individuals in those countries.

In the normal course of business, the Company may enter into transactions with subsidiaries of companies and financial institutions headquartered in Portugal, Ireland, Italy, Greece, or Spain. Such transactions may include deposits, loans, letters of credit, and derivatives, as well as foreign currency exchange agreements. As of June 30, 2012, these transactions did not present any material direct or indirect risk exposure to the Company. Among the derivative transactions, the Company has entered into a TRS agreement with Deutsche Bank AG with regard to certain bank and insurance trust preferred CDOs (see Note 6 of the Notes to Consolidated Financial Statements). If Deutsche Bank were unable to perform under the TRS, the agreement would terminate at no cost to Zions. There would be no balance sheet impact from cancellation, and the Company would save approximately \$5.3 million in fees quarterly. However, if the TRS were cancelled, the Company would lose the potential future risk mitigation benefits of the TRS, and regulatory risk weighted assets under the Basel I framework would increase by approximately \$3.3 billion, which would reduce regulatory risk-based capital ratios by approximately 7%.

Loan Portfolio

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## ZIONS BANCORPORATION AND SUBSIDIARIES

As of June 30, 2012, loans and leases were \$36.9 billion, reflecting a 0.7% decrease from December 31, 2011, and a 0.1% increase from June 30, 2011. The decrease from December 31, 2011 is primarily due to pay-downs and charge-offs.

The following table sets forth the loan portfolio by type of loan:

| (Amounts in millions)                       | June 30, 2012 |                  | December 31, 2011 |                  | June 30, 2011 |                  |
|---|---------------|------------------|-------------------|------------------|---------------|------------------|
|   | Amount        | % of total loans | Amount            | % of total loans | Amount        | % of total loans |
| Commercial:                                 |               |                  |                   |                  |               |                  |
| Commercial and industrial                   | \$10,383      | 28.2             | % \$10,335        | 27.8             | % \$9,520     | 25.9             |
| Leasing                                     | 406           | 1.1              | % 380             | 1.0              | % 365         | 1.0              |
| Owner occupied                              | 7,811         | 21.2             | % 8,159           | 22.0             | % 8,419       | 22.9             |
| Municipal                                   | 477           | 1.3              | % 441             | 1.2              | % 448         | 1.2              |
| Total commercial                            | 19,077        |                  | 19,315            |                  | 18,752        |                  |
| Commercial real estate:                     |               |                  |                   |                  |               |                  |
| Construction and land development           | 2,099         | 5.7              | % 2,265           | 6.1              | % 2,748       | 7.5              |
| Term  | 8,011         | 21.7             | % 7,883           | 21.2             | % 7,701       | 20.9             |
| Total commercial real estate                | 10,110        |                  | 10,148            |                  | 10,449        |                  |
| Consumer:                                   |               |                  |                   |                  |               |                  |
| Home equity credit line                     | 2,181         | 5.9              | % 2,187           | 5.9              | % 2,143       | 5.8              |
| 1-4 family residential                      | 4,019         | 10.9             | % 3,921           | 10.6             | % 3,807       | 10.3             |
| Construction and other consumer real estate | 328           | 0.9              | % 306             | 0.8              | % 308         | 0.8              |
| Bankcard and other revolving plans          | 284           | 0.8              | % 291             | 0.8              | % 280         | 0.8              |
| Other                                       | 232           | 0.6              | % 226             | 0.6              | % 231         | 0.6              |
| Total consumer                              | 7,044         |                  | 6,931             |                  | 6,769         |                  |
| FDIC-supported loans <sup>1</sup>           | 642           | 1.7              | % 751             | 2.0              | % 854         | 2.3              |
| Total net loans                             | \$36,873      | 100.0            | % \$37,145        | 100.0            | % \$36,824    | 100.0            |

<sup>1</sup> FDIC-supported loans represent loans acquired from the FDIC subject to loss sharing agreements.

Most of the loan portfolio contraction during the first six months of 2012 occurred in construction and land development and commercial owner occupied loans. The impact of these reductions was partially offset by growth in commercial and industrial, commercial real estate term, and 1-4 family residential loans. Most of the loan portfolio decrease occurred at ZFNB and NSB, while Vectra experienced the largest growth.

## Other Noninterest-Bearing Investments

The following table sets forth the Company's other noninterest-bearing investments:

| (In millions)                       | June 30, 2012 | December 31, 2011 | June 30, 2011 |
|-------------------------------------|---------------|-------------------|---------------|
| Bank-owned life insurance           | \$449         | \$443             | \$436         |
| Federal Home Loan Bank stock        | 115           | 116               | 120           |
| Federal Reserve stock               | 134           | 132               | 129           |
| SBIC investments                    | 42            | 39                | 41            |
| Non-SBIC investment funds and other | 114           | 121               | 119           |
| Trust preferred securities          | 14            | 14                | 14            |

|  |       |       |       |
|--|-------|-------|-------|
|  | \$868 | \$865 | \$859 |
|--|-------|-------|-------|

#### Deposits

Deposits, both interest-bearing and noninterest-bearing, are a primary source of funding for the Company. Average total deposits for the first six months of 2012 increased by 4.7% compared to the same prior year period, with average interest-bearing deposits decreasing 0.5% and average noninterest-bearing deposits increasing 14.7%. The decline in interest-bearing deposits resulted from actions taken by the Company to reduce higher cost deposits, such as time deposits.



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Core deposits at June 30, 2012, which exclude time deposits larger than \$100,000 and brokered deposits, increased by 1.2%, or \$473 million, from December 31, 2011. The increase was mainly due to increases in savings and NOW, and noninterest-bearing demand deposits, partially offset by decreases in time deposits less than \$100,000.

Demand, savings and money market deposits comprised 89.1% of total deposits at June 30, 2012, compared with 88.4% and 87.3% as of December 31, 2011 and June 30, 2011, respectively.

During 2011 and 2012, the Company maintained a low level of brokered deposits due to excess liquidity and weak loan demand. At June 30, 2012, total deposits included \$127 million of brokered deposits compared to \$204 million at December 31, 2011 and \$328 million at June 30, 2011.

**RISK ELEMENTS**

Since risk is inherent in substantially all of the Company's operations, management of risk is an integral part of its operations and is also a key determinant of its overall performance. We apply various strategies to reduce the risks to which the Company's operations are exposed, including credit, interest rate and market, liquidity and operational risks.

**Credit Risk Management**

Credit risk is the possibility of loss from the failure of a borrower, guarantor, or another obligor to fully perform under the terms of a credit-related contract. Credit risk arises primarily from the Company's lending activities, as well as from off-balance sheet credit instruments.

Centralized oversight of credit risk is provided through credit policies, credit administration, and credit examination functions at the Parent. We have structured the organization to separate the lending function from the credit administration function, which has added strength to the control over, and the independent evaluation of, credit activities. Formal loan policies and procedures provide the Company with a framework for consistent underwriting and a basis for sound credit decisions. In addition, the Company has a well-defined set of standards for evaluating its loan portfolio and management utilizes a comprehensive loan grading system to determine the risk potential in the portfolio. Furthermore, an independent internal credit examination department periodically conducts examinations of the Company's lending departments. These examinations are designed to review credit quality, adequacy of documentation, appropriate loan grading administration and compliance with lending policies, and reports thereon are submitted to management and to the Risk Oversight Committee of the Board of Directors. New, expanded, or modified products and services, as well as new lines of business, are approved by a corporate New Product Review Committee.

Both the credit policy and the credit examination functions are managed centrally. Each affiliate bank is able to modify corporate credit policy to be more conservative; however, corporate approval must be obtained if a bank wishes to create a more liberal policy. Historically, only a limited number of such modifications have been approved. This entire process has been designed to place an emphasis on strong underwriting standards and early detection of potential problem credits so that action plans can be developed and implemented on a timely basis to mitigate any potential losses.

Credit risk associated with counterparties to off-balance sheet credit instruments is generally limited to the hedging of interest rate risk through the use of swaps and futures. Our subsidiary banks that engage in this activity have ISDA agreements in place under which derivative transactions are entered into with major derivative dealers. Each ISDA agreement details the collateral arrangements between our subsidiaries and their counterparties. In every case, the amount of the collateral required to secure the exposed party in the derivative transaction is determined by the fair value of the derivative and the credit rating of the party with the obligation. Some of the counterparties are domiciled

in Europe; however, the Company's maximum exposure that is not cash collateralized to any single counterparty was not material as of June 30, 2012.

The Company's credit risk management strategy includes diversification of its loan portfolio. The Company attempts to avoid the risk of an undue concentration of credits in a particular collateral type or with an individual customer or counterparty. The Company has adopted and adheres to concentration limits on various types of commercial real estate lending, particularly construction and land development lending, leveraged lending, municipal lending, and lending to the energy sector. All of these limits are continually monitored and revised as necessary. The majority of the Company's business activity is with customers located within the geographical footprint of its banking subsidiaries.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## FDIC-Supported Loans

The Company's loan portfolio includes loans that were acquired from failed banks in 2009: Alliance Bank, Great Basin Bank, and Vineyard Bank. These loans include nonperforming loans and other loans with characteristics indicative of a high credit risk profile. Substantially all of these loans are covered under loss sharing agreements with the FDIC for which the FDIC generally will assume 80% of the first \$275 million of credit losses for the Alliance Bank assets, \$40 million of credit losses for the Great Basin Bank assets, \$465 million of credit losses for the Vineyard Bank assets and 95% of the credit losses in excess of those amounts. Therefore, the Company's financial exposure to losses from these assets is substantially limited. In addition, the acquired loans have performed better than originally expected. FDIC-supported loans represent approximately 1.7% of the Company's total loan portfolio at June 30, 2012.

## LOSSES COVERED BY FDIC LOSS SHARING AGREEMENTS

| (In millions)    | Inception through<br>June 30, 2012 |           |
|------------------|------------------------------------|-----------|
|                  | Total<br>actual losses             | Threshold |
| Alliance Bank    | \$ 176                             | \$ 275    |
| Vineyard Bank    | 211                                | 465       |
| Great Basin Bank | 12                                 | 40        |
|                  | \$ 399                             | \$ 780    |

## Government Agency Guaranteed Loans

The Company participates in various guaranteed lending programs sponsored by U.S. government agencies, such as the Small Business Administration, Federal Housing Authority, Veterans' Administration, Export-Import Bank of the U.S., and the U.S. Department of Agriculture. As of June 30, 2012, the principal balance of these loans was \$595 million, and the guaranteed portion amounted to \$442 million. Most of these loans were guaranteed by the Small Business Administration. Government agency guaranteed loans, excluding FDIC-supported loans, consisted of the following as of June 30, 2012.

| (Amounts in millions)                      | June 30,<br>2012 | Percent<br>guaranteed | December 31,<br>2011 | Percent<br>guaranteed |
|--|------------------|-----------------------|----------------------|-----------------------|
| Commercial                                 | \$573            | 74%                   | \$581                | 74%                   |
| Commercial real estate                     | 20               | 74%                   | 20                   | 75%                   |
| Consumer                                   | 2                | 100%                  | 2                    | 100%                  |
| Total loans excluding FDIC-supported loans | \$595            | 74%                   | \$603                | 74%                   |

The credit quality of the Company's loan portfolio improved further during the first six months of 2012. Nonperforming lending-related assets decreased by 11.7% and 38.0% from December 31, 2011 and June 30, 2011, respectively. Gross charge-offs for the first six months declined to \$154 million from \$310 million in the first six months of 2011. Net charge-offs decreased to \$98 million from \$259 million in the same periods.

A more comprehensive discussion of our credit risk management is contained in the Company's 2011 Annual Report on Form 10-K.



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## ZIONS BANCORPORATION AND SUBSIDIARIES

## Commercial Lending

The following schedule provides selected information regarding lending concentrations to certain industries in our commercial lending portfolio.

| (Amounts in millions)                           | June 30, 2012 |         | December 31, 2011 |         |   |
|---|---------------|---------|-------------------|---------|---|
|   | Amount        | Percent | Amount            | Percent |   |
| Real estate, rental and leasing                 | \$2,812       | 14.7    | % \$2,755         | 14.3    | % |
| Manufacturing                                   | 1,982         | 10.4    | % 2,069           | 10.7    | % |
| Mining, quarrying and oil and gas extraction    | 1,806         | 9.5     | % 1,763           | 9.1     | % |
| Retail trade                                    | 1,558         | 8.2     | % 1,646           | 8.5     | % |
| Wholesale trade                                 | 1,459         | 7.6     | % 1,600           | 8.3     | % |
| Healthcare and social assistance                | 1,196         | 6.3     | % 1,245           | 6.4     | % |
| Construction                                    | 1,060         | 5.6     | % 1,083           | 5.6     | % |
| Transportation and warehousing                  | 975           | 5.1     | % 949             | 4.9     | % |
| Finance and insurance                           | 974           | 5.1     | % 865             | 4.5     | % |
| Professional, scientific and technical services | 925           | 4.8     | % 953             | 4.9     | % |
| Accommodation and food services                 | 776           | 4.1     | % 825             | 4.3     | % |
| Other <sup>1</sup>                              | 3,554         | 18.6    | % 3,562           | 18.5    | % |
| Total   | \$19,077      | 100.0   | % \$19,315        | 100.0   | % |

<sup>1</sup> No other industry group exceeds 5%.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## Commercial Real Estate Loans

Selected information regarding our commercial real estate (“CRE”) loan portfolio is presented in the following table:

## COMMERCIAL REAL ESTATE PORTFOLIO BY LOAN TYPE AND COLLATERAL LOCATION

(Amounts in millions)

| Loan Type                                     | As of Date | Collateral Location |                     |                     |         |          |           |            |            |                    |
|---|------------|---------------------|---------------------|---------------------|---------|----------|-----------|------------|------------|--------------------|
|   |            | Arizona             | Northern California | Southern California | Nevada  | Colorado | Texas     | Utah/Idaho | Washington | Other <sup>1</sup> |
| Commercial term                               |            |                     |                     |                     |         |          |           |            |            |                    |
| Balance outstanding                           | 6/30/2012  | \$1,027.3           | \$617.0             | \$2,139.6           | \$666.4 | \$480.0  | \$1,007.9 | \$1,000.8  | \$248.9    | \$823.4            |
| % of loan type                                |            | 12.8                | % 7.7               | % 26.7              | % 8.3   | % 6.0    | % 12.6    | % 12.5     | % 3.1      | % 10.3             |
| Delinquency rates <sup>2</sup> :              |            |                     |                     |                     |         |          |           |            |            |                    |
| 30-89 days                                    | 6/30/2012  | 0.4                 | % 0.4               | % 0.3               | % 0.4   | % 0.2    | % 0.8     | % 0.3      | % —        | 1.1                |
|   | 12/31/2011 | 0.6                 | % 0.4               | % 1.2               | % 0.5   | % 0.5    | % 1.6     | % 0.5      | % —        | 1.1                |
| ≥ 90 days                                     | 6/30/2012  | 0.9                 | % 0.6               | % 0.6               | % 1.8   | % 1.6    | % 1.8     | % 0.3      | % 0.6      | % 2.9              |
|   | 12/31/2011 | 0.9                 | % 0.3               | % 0.3               | % 0.4   | % —      | 1.7       | % 0.6      | % —        | 2.1                |
| Accruing loans past due 90 days or more       |            |                     |                     |                     |         |          |           |            |            |                    |
|   | 6/30/2012  | \$0.5               | \$—                 | \$0.2               | \$—     | \$—      | \$0.5     | \$—        | \$—        | \$—                |
|   | 12/31/2011 | 0.4                 | —                   | —                   | —       | —        | 3.2       | —          | —          | 0.6                |
| Nonaccrual loans                              |            |                     |                     |                     |         |          |           |            |            |                    |
|   | 6/30/2012  | 20.4                | 8.4                 | 14.0                | 48.3    | 13.4     | 25.1      | 6.8        | 5.0        | 41.0               |
|   | 12/31/2011 | 13.7                | 3.4                 | 26.6                | 37.3    | 13.9     | 23.3      | 9.1        | —          | 28.9               |
| Residential construction and land development |            |                     |                     |                     |         |          |           |            |            |                    |
| Balance outstanding                           | 6/30/2012  | \$90.1              | \$41.9              | \$174.3             | \$3.5   | \$35.2   | \$242.9   | \$142.0    | \$0.5      | \$41.6             |
| % of loan type                                |            | 11.7                | % 5.4               | % 22.6              | % 0.5   | % 4.5    | % 31.4    | % 18.4     | % 0.1      | % 5.4              |
| Delinquency rates <sup>2</sup> :              |            |                     |                     |                     |         |          |           |            |            |                    |
| 30-89 days                                    | 6/30/2012  | 4.1                 | % 11.4              | % 1.9               | % 8.7   | % —      | % 3.0     | % 0.4      | % —        | —                  |
|   | 12/31/2011 | 0.6                 | % 14.1              | % —                 | 0.8     | % 13.8   | % 0.4     | % 0.2      | % —        | —                  |
| ≥ 90 days                                     | 6/30/2012  | 4.0                 | % —                 | 1.8                 | % —     | 3.2      | % 10.5    | % 2.0      | % —        | —                  |
|   | 12/31/2011 | 2.7                 | % —                 | 3.9                 | % 6.8   | % 5.3    | % 11.6    | % 4.5      | % 24.1     | % —                |
| Accruing loans past due 90 days or more       |            |                     |                     |                     |         |          |           |            |            |                    |
|   | 6/30/2012  | \$2.1               | \$—                 | \$—                 | \$—     | \$—      | \$—       | \$—        | \$—        | \$—                |
|   | 12/31/2011 | 0.5                 | —                   | 0.2                 | —       | —        | 0.1       | —          | —          | —                  |
| Nonaccrual loans                              |            |                     |                     |                     |         |          |           |            |            |                    |
|   | 6/30/2012  | 10.0                | —                   | 4.1                 | 0.9     | 1.1      | 35.0      | 7.7        | —          | —                  |
|   | 12/31/2011 | 13.0                | —                   | 6.4                 | 5.0     | 1.9      | 49.6      | 15.0       | 0.2        | —                  |
| Commercial construction and land development  |            |                     |                     |                     |         |          |           |            |            |                    |
|   | 6/30/2012  | \$156.7             | \$32.1              | \$207.9             | \$77.2  | \$95.5   | \$419.7   | \$309.4    | \$18.8     | \$9.8              |

|   |            |           |         |           |         |         |           |           |         |         |     |
|---|------------|-----------|---------|-----------|---------|---------|-----------|-----------|---------|---------|-----|
| Balance outstanding                     |            |           |         |           |         |         |           |           |         |         |     |
| % of loan type                          |            | 11.8      | % 2.4   | % 15.7    | % 5.8   | % 7.2   | % 31.6    | % 23.3    | % 1.4   | % 0.8   | %   |
| Delinquency rates <sup>2</sup> :        |            |           |         |           |         |         |           |           |         |         |     |
| 30-89 days                              | 6/30/2012  | 1.0       | % 1.9   | % —       | 12.1    | % —     | —         | 0.1       | % —     | 9.0     | %   |
|   | 12/31/2011 | 1.6       | % —     | —         | —       | 4.4     | % 1.7     | % —       | —       | —       | —   |
| ≥ 90 days                               | 6/30/2012  | 2.3       | % —     | 0.2       | % —     | —       | 3.9       | % 0.4     | % —     | —       | —   |
|   | 12/31/2011 | 2.1       | % —     | 1.1       | % 5.6   | % 5.5   | % 6.0     | % 1.7     | % —     | —       | —   |
| Accruing loans past due 90 days or more | 6/30/2012  | \$0.1     | \$—     | \$0.1     | \$—     | \$—     | \$—       | \$—       | \$—     | \$—     | \$— |
|   | 12/31/2011 | —         | —       | 1.6       | —       | —       | 0.1       | —         | —       | —       | —   |
| Nonaccrual loans                        | 6/30/2012  | 3.5       | —       | 0.3       | 1.0     | —       | 37.6      | 14.2      | —       | —       | —   |
|   | 12/31/2011 | 5.9       | —       | —         | 12.1    | 9.1     | 81.4      | 20.2      | —       | —       | —   |
| Total construction and land development | 6/30/2012  | \$246.8   | \$74.0  | \$382.2   | \$80.7  | \$130.7 | \$662.6   | \$451.4   | \$19.3  | \$51.4  |     |
| Total commercial real estate            | 6/30/2012  | \$1,274.1 | \$691.0 | \$2,521.8 | \$747.1 | \$610.7 | \$1,670.5 | \$1,452.2 | \$268.2 | \$874.8 |     |

<sup>1</sup>No other geography exceeds \$97 million for all three loan types.

<sup>2</sup>Delinquency rates include nonaccrual loans.

Approximately 35% of the commercial real estate term loans consist of mini-perm loans as of June 30, 2012. For such loans, construction has been completed and the project has stabilized to a level that supports the granting of a mini-perm loan in accordance with our underwriting standards. Mini-perm loans generally have initial maturities of three to seven years. The remaining 65% of commercial real estate loans are term loans with initial maturities generally of 15 to 20 years. The stabilization criteria for a project to qualify for a term loan differ by product type and include, for example, criteria related to the cash flow generated by the project and occupancy rates.

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Approximately 29% of the commercial construction and land development portfolio at June 30, 2012 consists of acquisition and development loans. Most of these acquisition and development properties are secured by specific retail, apartment, office, or other projects. Underwriting on commercial properties is primarily based on the economic viability of the project with heavy consideration given to the creditworthiness of the sponsor. We generally require that the owner's equity be injected prior to bank advances. Remargining requirements are often included in the loan agreement along with guarantees of the sponsor. Recognizing that debt is paid via cash flow, the projected economics of the project are primary in the underwriting because these determine the ultimate value of the property and its ability to service debt. Therefore, in most projects we look for substantial pre-leasing (with the exception of multifamily projects) in our underwriting and we generally require a minimum projected stabilized debt service coverage ratio of 1.20.

Although lending for residential construction and development deals with a different product type, many of the requirements previously mentioned, such as creditworthiness of the developer, up-front injection of the developer's equity, remargining requirements, and the viability of the project are also important in underwriting a residential development loan. Heavy consideration is given to market acceptance of the product, location, strength of the developer, and the ability of the developer to stay within budget. Progress inspections by qualified independent inspectors are routinely performed before disbursements are made.

Real estate appraisals are ordered and validated independently of the credit officer and the borrower, generally by each bank's appraisal review function, which is staffed by certified appraisers. In some cases, reports from automated valuation services are used. Appraisals are ordered from outside appraisers at the inception, renewal or, for CRE loans, upon the occurrence of any event causing a downgrade to a "criticized" or "classified" designation. The frequency for obtaining updated appraisals for these adversely graded credits is increased when declining market conditions exist. Advance rates, on an "as completed basis," will vary based on the viability of the project and the creditworthiness of the sponsor, but corporate guidelines generally limit advances to 50% for raw land, 65% for land development, 65% for finished commercial lots, 75% for finished residential lots, 80% for pre-sold homes, 75% for models and spec homes, and 75% for commercial properties. Exceptions may be granted on a case-by-case basis.

Loan agreements require regular financial information on the project and the sponsor in addition to lease schedules, rent rolls and, on construction projects, independent progress inspection reports. The receipt of this financial information is monitored and calculations are made to determine adherence to the covenants set forth in the loan agreement. Additionally, loan-by-loan reviews of pass grade loans for all commercial and residential construction and land development loans are performed quarterly at Zions Bank, NBA, and Vectra. Amegy, NSB and CB&T perform such reviews semiannually.

Interest reserves are generally established as a loan disbursement budget item for real estate construction or development loans. We generally require borrowers to put their equity into the project prior to loan disbursements on these loans. This enables the bank to ensure the availability of equity in the project. The Company's practice is to monitor the construction, sales and/or leasing progress to determine whether or not the project remains viable. If, at any time during the life of the credit, the project is determined not to be viable (including the adequacy of the remaining interest reserves), the bank takes appropriate action to protect its collateral position via negotiation and/or legal action as deemed necessary. At June 30, 2012, and June 30, 2011, Zions' affiliates had 459 and 349 loans with an outstanding balance of \$488 million and \$377 million where available interest reserves amounted to \$59 million and \$32 million, respectively. In instances where projects have been determined not to be viable, the interest reserves and



other disbursements have been frozen, as appropriate.

We have not been involved to any meaningful extent with insurance arrangements, credit derivatives, or any other default agreements as a mitigation strategy for commercial real estate loans. However, we do make use of personal or other guarantees as risk mitigation strategies.

Commercial real estate loans are sometimes modified to increase the likelihood of collecting the maximum possible amount of the Company's investment in the loan. In general, the existence of a guarantee that improves the likelihood of repayment is taken into consideration when analyzing a loan for impairment. If the support of the guarantor is quantifiable and documented, it is included in the potential cash flows and liquidity available for debt repayment and our impairment methodology takes into consideration this repayment source.

Additionally, when we modify or extend a loan, we give consideration to whether the borrower is in financial difficulty, and whether a concession has been granted. In determining if an interest rate concession has been granted, we consider whether the interest rate on the modified loan is equivalent to current market rates for new debt with similar risk characteristics. If the rate

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in the modification is less than current market rates, it may indicate that a concession was granted and an impairment exists. However, if additional collateral is obtained or if a strong guarantor exists who is believed to be able and willing to support the loan on an extended basis, we also consider the nature and amount of the additional collateral and guarantees in the ultimate determination of whether a concession has been granted.

We obtain and consider updated financial information for the guarantor as part of our determination to extend a loan. The quality and frequency of financial reporting collected and analyzed varies depending on the contractual requirements for reporting, the size of the transaction, and the strength of the guarantor.

Complete underwriting of the guarantor includes, but is not limited to, an analysis of the guarantor's current financial statements, leverage, liquidity, global cash flow, global debt service coverage, contingent liabilities, etc. The assessment also includes a qualitative analysis of the guarantor's willingness to perform in the event of a problem and demonstrated history of performing in similar situations. Additional analyses may include personal financial statements, tax returns, liquidity (brokerage) confirmations and other reports, as appropriate. All personal financial statements of customers entering into new relationships with the applicable bank must not be more than 60 days old on the date the transaction is approved. Personal financial statements that are required for existing customers must be no more than 15 months old. Evaluations of the financial strength of the guarantor are performed at least annually.

A qualitative assessment is performed on a case-by-case basis to evaluate the guarantor's experience, performance track record, reputation, performance of other related projects with which we are familiar, and willingness to work with us. We also utilize market information sources, rating and scoring services in our assessment. This qualitative analysis coupled with a documented quantitative ability to support the loan may result in a higher-quality internal loan grade, which may reduce the level of allowance the Company estimates. Previous documentation of the guarantor's financial ability to support the loan is discounted if, at any point in time, there is any indication of a lack of willingness by the guarantor to support the loan.

In the event of default, we evaluate the pursuit of any and all appropriate potential sources of repayment, which may come from multiple sources, including the guarantee. A number of factors are considered when deciding whether or not to pursue a guarantor, including, but not limited to, the value and liquidity of other sources of repayment (collateral), the financial strength and liquidity of the guarantor, possible statutory limitations (e.g., single action rule on real estate) and the overall cost of pursuing a guarantee compared to the ultimate amount we may be able to recover. In other instances, the guarantor may voluntarily support a loan without any formal pursuit of remedies.

Consumer Loans

The Company has mainly been an originator of first and second mortgages, generally considered to be of prime quality. Its practice historically has been to sell "conforming" fixed rate loans to third parties, including Fannie Mae and Freddie Mac, for which it makes representations and warranties as to meeting certain underwriting and collateral documentation standards. It has also been the Company's practice historically to hold variable rate loans in its portfolio. The Company estimates that it does not have any material financial risk as a result of its foreclosure practices or loan "put-backs" by Fannie Mae or Freddie Mac, and has not established any reserves related to these items.

The Company has a portfolio of \$347 million of stated income mortgage loans with generally high FICO scores at origination, including "one-time close" loans to finance the construction of homes, which convert into permanent jumbo mortgages. As of June 30, 2012, approximately \$25 million of these loans had FICO scores of less than 620. These totals exclude held-for-sale loans. Stated income loans account for approximately \$2.5 million, or 24%, of our credit losses in 1-4 family residential first mortgage loans during the first six months of 2012, and were primarily in Utah and Arizona.

The Company is engaged in home equity credit line lending. At June 30, 2012, the Company's HECL portfolio totaled \$2.2 billion. Including FDIC-supported loans, approximately \$1.1 billion of the portfolio is secured by first deeds of trust, while the remaining \$1.1 billion is secured by junior liens. The outstanding balances and commitments by origination year for the junior lien HECLs are presented in the following schedule.

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## JR. LIEN HECLs – OUTSTANDING BALANCES AND TOTAL COMMITMENTS

(In millions)

| Year of origination | June 30, 2012       |                   | December 31, 2011   |                   |
|---------------------|---------------------|-------------------|---------------------|-------------------|
|                     | Outstanding balance | Total commitments | Outstanding balance | Total commitments |
| 2012                | \$52                | \$110             |                     |                   |
| 2011                | 106                 | 199               | \$109               | \$206             |
| 2010                | 76                  | 139               | 84                  | 147               |
| 2009                | 74                  | 141               | 83                  | 149               |
| 2008                | 171                 | 268               | 184                 | 262               |
| 2007                | 210                 | 319               | 228                 | 299               |
| 2006 and prior      | 457                 | 973               | 492                 | 918               |
| Total               | \$1,146             | \$2,149           | \$1,180             | \$1,981           |

More than 99% of the Company's HECL portfolio is still in the draw period, and approximately 54% is scheduled to begin amortizing within the next five years; however, most of them are expected to be renewed for a second 10-year period after a satisfactory review of the borrower's credit history. Of the total home equity credit line portfolio including FDIC-supported loans, 0.31% was 90 or more days past due at June 30, 2012 as compared to 0.52% and 0.34% at December 31, 2011 and June 30, 2011, respectively. During the six months of 2012, the Company modified \$0.1 million of home equity credit lines. The annualized credit losses for the HECL portfolio were 94 and 113 basis points for the first six months of 2012 and 2011, respectively.

As of June 30, 2012, loans representing approximately 16% of the outstanding balance in the HECL portfolio were estimated to have combined loan-to-value (CLTV) ratios above 100%. Estimated CLTV ratios are based on projecting values forward from the most recent valuation of the underlying collateral using home price indices at the metropolitan area level. Generally, a valuation of collateral is performed at origination. For junior lien HECLs, the estimated current balance of prior liens is added to the numerator in the calculation of CLTV. The additional breakouts for the CLTV as of June 30, 2012 and December 31, 2011 are shown in the following schedule.

## HECL PORTFOLIO BY COMBINED LOAN-TO-VALUE

| CLTV    | Percentage of HECL portfolio |   |                   |   |
|---------|------------------------------|---|-------------------|---|
|         | June 30, 2012                |   | December 31, 2011 |   |
| >100%   | 16                           | % | 17                | % |
| 90-100% | 10                           | % | 11                | % |
| 80-89%  | 15                           | % | 15                | % |
| < 80%   | 59                           | % | 57                | % |
|         | 100                          | % | 100               | % |

Underwriting standards for the HECL portfolio generally include a maximum 80% CLTV with high credit scores at origination. Credit bureau data, credit scores, and estimated CLTV are refreshed on a quarterly basis, and are used to monitor and manage accounts, including amounts available under the lines of credit. The allowance for loan losses is determined through the use of roll rate models, and first lien HECLs are modeled separately from junior lien HECLs.

See Note 5 of the Notes to Consolidated Financial Statements for additional information on the allowance.

Nonperforming Assets

As reflected in the following table, the Company's nonperforming lending-related assets as a percentage of loans and leases and OREO decreased to 2.53% at June 30, 2012, compared with 2.83% at December 31, 2011 and 4.06% at June 30, 2011.

Total nonaccrual loans, excluding FDIC-supported loans, at June 30, 2012 decreased by \$114 million from December 31, 2011. The decrease is primarily due to a \$105 million decrease in construction and land development loans, an \$18 million decrease

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in loans held for sale, and a \$15 million decline in 1-4 family residential loans. This decrease was partially offset by increases of \$26 million and \$6 million in term loans and commercial and industrial loans, respectively. The largest total decreases in nonaccrual loans occurred at Amegy, Vectra, and NBA.

The balance of nonaccrual loans can decrease due to pay-downs, charge-offs, and the return of loans to accrual status under certain conditions. If a nonaccrual loan is refinanced or restructured, the new note is immediately placed on nonaccrual. Company policy does not allow the conversion of nonaccrual construction and land development loans to commercial real estate term loans. See Note 5 of the Notes to Consolidated Financial Statements for more information.

The following table sets forth the Company's nonperforming lending-related assets:

| (Amounts in millions)  | June 30,<br>2012 | December 31,<br>2011 | June 30,<br>2011 |   |  |
|--|------------------|----------------------|------------------|---|--|
| Nonaccrual loans   | \$771            | \$886                | \$1,243          |   |  |
| Other real estate owned  | 125              | 129                  | 195              |   |  |
| Nonperforming lending-related assets, excluding FDIC-supported assets  | 896              | 1,015                | 1,438            |   |  |
| FDIC-supported nonaccrual loans  | 22               | 24                   | 31               |   |  |
| FDIC-supported other real estate owned   | 20               | 24                   | 44               |   |  |
| FDIC-supported nonperforming lending-related assets  | 42               | 48                   | 75               |   |  |
| Total nonperforming lending-related assets   | \$938            | \$1,063              | \$1,513          |   |  |
| Ratio of nonperforming lending-related assets to net loans and leases <sup>1</sup> and other real estate owned | 2.53             | % 2.83               | % 4.06           | % |  |
| Accruing loans past due 90 days or more, excluding FDIC-supported loans  | \$30             | \$19                 | \$19             |   |  |
| FDIC-supported loans past due 90 days or more  | 70               | 75                   | 90               |   |  |
| Ratio of accruing loans past due 90 days or more to net loans and leases <sup>1</sup>                          | 0.27             | % 0.25               | % 0.29           | % |  |
| Nonaccrual loans and accruing loans past due 90 days or more   | \$893            | \$1,004              | \$1,382          |   |  |
| Ratio of nonaccrual loans and accruing loans past due 90 days or more to net loans and leases <sup>1</sup>     | 2.41             | % 2.69               | % 3.74           | % |  |
| Accruing loans past due 30 – 89 days, excluding FDIC-supported loans   | \$142            | \$184                | \$171            |   |  |
| FDIC-supported loans past due 30 – 89 days   | 16               | 25                   | 21               |   |  |
| Classified loans, excluding FDIC-supported loans   | 1,881            | 2,056                | 2,676            |   |  |

<sup>1</sup> Includes loans held for sale.

**Restructured Loans**

TDRs are loans that have been modified to accommodate a borrower that is experiencing financial difficulties, and for which the Company has granted a concession that it would not otherwise consider. Commercial loans may be modified to provide the borrower more time to complete the project, to achieve a higher lease-up percentage, to sell the property, or for other reasons. Consumer loan TDRs represent loan modifications in which a concession has been granted to the borrower who is unable to refinance the loan with another lender, or who is experiencing economic hardship. Such consumer loan TDRs may include first-lien residential mortgage loans and home equity loans.

For certain TDRs, we split the loan into two new notes – an “A” note and a “B” note. The A note is structured to comply with our current lending standards at current market rates, and is tailored to suit the customer's ability to make timely interest and principal payments. The B note includes the granting of the concession to the borrower and varies by situation. We may defer principal and interest payments until the A note has been paid in full. At the time of

restructuring, the A note is identified and classified as a TDR. The B note is charged-off but the obligation is not forgiven to the borrower, and any payments collected on the B notes are accounted for as recoveries. The outstanding balance of loans restructured using the A/B note strategy was approximately \$256 million at June 30, 2012.

If the restructured loan performs for at least six months according to the modified terms, and an analysis of the customer's financial condition indicates that the Company is reasonably assured of repayment of the modified principal and interest, the loan may be returned to accrual status. The borrower's payment performance prior to and following the restructuring is taken into account in determining whether or not a loan should be returned to accrual status.

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## ACCRUING AND NONACCRUING TROUBLED DEBT RESTRUCTURED LOANS

| (In millions)                    | June 30,<br>2012 | December 31,<br>2011 | June 30,<br>2011 |
|----------------------------------|------------------|----------------------|------------------|
| Restructured loans – accruing    | \$393            | \$448                | \$394            |
| Restructured loans – nonaccruing | 228              | 296                  | 324              |
| Total                            | \$621            | \$744                | \$718            |

In the periods following the calendar year in which a loan was restructured, a loan may no longer be reported as a TDR if it is on accrual, is in compliance with its modified terms, and yields a market rate (as determined and documented at the time of the modification or restructure). Company policy requires that the removal of TDR status be approved at the same management level that approves the upgrading of a loan's classification. See Note 5 of the Notes to Consolidated Financial Statements.

## TROUBLED DEBT RESTRUCTURED LOANS ROLLFORWARD

| (In millions)                               | Three Months Ended<br>June 30, 2012 | Six Months Ended<br>June 30, 2012 |
|---|-------------------------------------|-----------------------------------|
| Balance at beginning of period              | \$678                               | \$744                             |
| New identified TDRs and principal increases | 62                                  | 150                               |
| Payments and payoffs                        | (77 )                               | (144 )                            |
| Charge-offs                                 | (4 )                                | (13 )                             |
| No longer reported as TDRs                  | (1 )                                | (63 )                             |
| Sales and other                             | (37 )                               | (53 )                             |
| Balance at end of period                    | \$621                               | \$621                             |
| Other Nonperforming Assets                  |                                     |                                   |

In addition to the lending-related nonperforming assets, the Company had \$139 million in carrying value and \$531 million in amortized cost of investments in debt securities (primarily bank and insurance company CDOs) that were on nonaccrual status at June 30, 2012, compared to \$124 million and \$613 million at December 31, 2011 and \$214 million and \$664 million at June 30, 2011, respectively.

## Allowance and Reserve for Credit Losses

In analyzing the adequacy of the allowance for loan losses, we utilize a comprehensive loan grading system to determine the risk potential in the portfolio and also consider the results of independent internal credit reviews. To determine the adequacy of the allowance, the Company's loan and lease portfolio is broken into segments based on loan type.

The following table shows the changes in the allowance for loan losses and a summary of loan loss experience:



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| (Amounts in millions)   | Six Months<br>Ended<br>June 30,<br>2012 | Twelve Months<br>Ended<br>December 31,<br>2011 | Six Months<br>Ended<br>June 30,<br>2011 |   |
|---|---|--|---|---|
| Loans and leases outstanding (net of unearned income)   | \$36,873                                | \$37,145                                       | \$36,824                                |   |
| Average loans and leases outstanding (net of unearned income)   | \$36,760                                | \$36,798                                       | \$36,754                                |   |
| Allowance for loan losses:  |   |  |   |   |
| Balance at beginning of period  | \$1,050                                 | \$1,440  | \$1,440                                 |   |
| Provision charged against earnings  | 27                                      | 75   | 61                                      |   |
| Adjustment for FDIC-supported loans   | (7 )                                    | (9 )   | (4 )                                    |   |
| Charge-offs:  |   |  |   |   |
| Commercial  | (67 )                                   | (241 )   | (118 )                                  |   |
| Commercial real estate  | (52 )                                   | (229 )   | (141 )                                  |   |
| Consumer  | (35 )                                   | (90 )  | (51 )                                   |   |
| Total   | (154 )                                  | (560 )   | (310 )                                  |   |
| Recoveries:   |   |  |   |   |
| Commercial  | 24                                      | 55   | 28                                      |   |
| Commercial real estate  | 25                                      | 35   | 16                                      |   |
| Consumer  | 7                                       | 14   | 7                                       |   |
| Total   | 56                                      | 104  | 51                                      |   |
| Net loan and lease charge-offs  | (98 )                                   | (456 )   | (259 )                                  |   |
| Balance at end of period  | \$972                                   | \$1,050  | \$1,238                                 |   |
| Ratio of annualized net charge-offs to average loans and leases   | 0.53                                    | % 1.24   | % 1.41                                  | % |
| Ratio of allowance for loan losses to net loans and leases, at period end   | 2.64                                    | % 2.83   | % 3.36                                  | % |
| Ratio of allowance for loan losses to nonperforming loans, at period end  | 122.46                                  | % 115.40                                       | % 97.17                                 | % |
| Ratio of allowance for loan losses to nonaccrual loans and accruing loans past due 90 days or more, at period end | 108.77                                  | % 104.62                                       | % 89.53                                 | % |

The total allowance for loan losses declined during the second quarter of 2012 due to the improved credit quality metrics observed in the loan portfolio. The Company kept the portion of the ALLL related to qualitative and environmental factors relatively constant during the second quarter of 2012 to reflect offsetting trends in improving credit quality and conditions that indicate a potential economic slowdown.

The total allowance for loan losses declined during the first six months of 2012 due to the improved credit quality metrics observed in the loan portfolio and improved economic conditions. The Company decreased the portion of the ALLL related to qualitative and environmental factors during the first six months of 2012 to reflect improving credit quality and somewhat improving economic conditions.

The reserve for unfunded lending commitments represents a reserve for potential losses associated with off-balance sheet commitments and standby letters of credit. The reserve is separately shown in the Company's consolidated balance sheet and any related increases or decreases in the reserve are included in noninterest expense in the statement of income. The reserve increased by \$1.2 million and \$3.3 million from December 31, 2011 and June 30, 2011 respectively. These increases are primarily due an increase in unfunded lending commitments. See Note 5 of the Notes

to Consolidated Financial Statements for additional information related to the allowance for credit losses.

**Interest Rate and Market Risk Management**

Interest rate and market risk are managed centrally. Interest rate risk is the potential for reduced net interest income resulting from adverse changes in the level of interest rates. Market risk is the potential for loss arising from adverse changes in the fair value of fixed income securities, equity securities, other earning assets and derivative financial instruments as a result of changes in interest rates or other factors. As a financial institution that engages in transactions involving an array of financial products, the Company is exposed to both interest rate risk and market risk.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The Company's Board of Directors is responsible for approving the overall policies relating to the management of the financial risk of the Company, including interest rate and market risk management. The Boards of Directors of the Company's subsidiary banks are also required to review and approve these policies. In addition, the Board establishes and periodically revises policy limits, and reviews limit exceptions reported by management. The Board has established the management ALCO to which it has delegated the management of interest rate and market risk for the Company.

**Interest Rate Risk**

Interest rate risk is one of the most significant risks to which the Company is regularly exposed. In general, our goal in managing interest rate risk is to have the net interest margin increase slightly in a rising interest rate environment. We refer to this goal as being slightly "asset-sensitive." This approach is based on our belief that in a rising interest rate environment, the market cost of equity, or implied rate at which future earnings are discounted, would also tend to rise. The asset sensitivity of the Company's balance sheet changed minimally during the second quarter of 2012. Due to the low level of rates and the natural lower bound of zero for market indices, there is minimal sensitivity to falling rates at the current time. Decreasing market index rates by 200bp, with a lower bound of 0%, decreases interest income by 2% in the income simulation. However, if the Federal Reserve continues to implement its announced intent to keep interest rates at historically low levels through 2014, given the Company's asset sensitivity, it expects its net interest margin to be under modest pressure assuming a stable balance sheet.

We attempt to minimize the impact of changing interest rates on net interest income primarily through the use of interest rate floors on variable rate loans, interest rate swaps, interest rate futures, and by avoiding large exposures to long-term fixed rate interest-earning assets that have significant negative convexity. Our earning assets are largely tied to the shorter end of the interest rate curve. The prime lending rate and the LIBOR curves are the primary indices used for pricing the Company's loans. The interest rates paid on deposit accounts are set by individual banks so as to be competitive in each local market.

We monitor interest rate risk through the use of two complementary measurement methods: duration of equity and income simulation. In the duration of equity method, we measure the expected changes in the fair values of equity in response to changes in interest rates. In the income simulation method, we analyze the expected changes in income in response to changes in interest rates.

Duration of equity is derived by first calculating the dollar duration of all assets, liabilities and derivative instruments. Dollar duration is determined by calculating the fair value of each instrument assuming interest rates sustain immediate and parallel movements up 10 bps and down 10 bps. The average of these two changes in fair value is the dollar duration. Subtracting the dollar duration of liabilities from the dollar duration of assets and adding the net dollar duration of derivative instruments results in the dollar duration of equity. Duration of equity is computed by dividing the dollar duration of equity by the fair value of equity. A positive value implies that an increase in interest rates decreases the dollar value of equity, whereas a negative value implies that an increase in interest rates increases the dollar value of equity. The Company's policy is generally to maintain a duration of equity between -3% to +7%. However, exceptions to the policy have been approved by the Company's Board of Directors. In the current low interest rate environment, the Company is operating with a duration of equity of slightly less than -3% in some planning scenarios.

Income simulation is an estimate of the net interest income and total rate sensitive income that would be recognized under different rate environments. Net interest income and total rate sensitive income are measured under several

parallel and nonparallel interest rate environments and deposit repricing assumptions, taking into account an estimate of the possible exercise of options within the portfolio. For income simulation, Company policy requires that interest sensitive income from a static balance sheet be limited to a decline of no more than 10% during one year if rates were to immediately rise or fall in parallel by 200 basis points.

Both of these measurement methods require that we assess a number of variables and make various assumptions in managing the Company's exposure to changes in interest rates. The assessments address loan and security prepayments, early deposit withdrawals, and other embedded options and noncontrollable events. As a result of uncertainty about the maturity and repricing characteristics of both deposits and loans, the Company estimates ranges of duration and income simulation under a variety of assumptions and scenarios. The Company's interest rate risk position changes as the interest rate environment changes and is actively managed to maintain a slightly asset-sensitive position. However, positions at the end of any period may not be reflective of the Company's position in any subsequent period.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The estimated duration of equity and the income simulation results are highly sensitive to the assumptions used for deposits that do not have specific maturities, such as checking, savings, and money market accounts and also to prepayment assumptions used for loans with prepayment options. Given the uncertainty of these estimates, we view both the duration of equity and the income simulation results as falling within a wide range of possibilities.

As of the dates indicated, the following schedule shows the Company's estimated duration of equity and percentage change in interest sensitive income, based on a static balance sheet, in the first year after the rate change if interest rates were to sustain an immediate parallel change of 200 basis points. The Company estimates interest rate risk with two sets of deposit repricing scenarios. The first scenario assumes that administered-rate deposits (money market, interest-earning checking, and savings) reprice at a faster speed in response to changes in interest rates. The second scenario assumes that those deposits reprice at a slower speed.

|  | June 30,<br>2012           |        | March 31,<br>2012 |        | December 31,<br>2011 |        |
|--|----------------------------|--------|-------------------|--------|----------------------|--------|
|  | Fast                       | Slow   | Fast              | Slow   | Fast                 | Slow   |
| Duration of equity <sup>1</sup> :                        |                            |        |                   |        |                      |        |
| Base case  | -0.8                       | % -4.4 | % -1.5            | % -4.5 | % -1.0               | % -3.8 |
| Increase interest rates by 200 bps                       | -2.8                       | -5.5   | -1.8              | -4.0   | -1.5                 | -3.5   |
|  | Deposit repricing response |        |                   |        |                      |        |
|  | Fast                       | Slow   | Fast              | Slow   | Fast                 | Slow   |
| Income simulation – change in interest sensitive income: |                            |        |                   |        |                      |        |
| Increase interest rates by 200 bps                       | 9.2                        | % 12.2 | % 9.7             | % 12.3 | % 7.4                | % 10.0 |
| Decrease interest rates by 200 bps <sup>2</sup>          | -1.5                       | -1.9   | -2.5              | -2.8   | -2.0                 | -2.3   |

<sup>1</sup> The duration of equity is the modified duration reported in percentages.

<sup>2</sup> In the event that a 200 basis point rate parallel decrease cannot be achieved, the applicable rate changes are limited to lesser amounts such that interest rates cannot be less than zero.

During the second quarter of 2012, the Company experienced little change in its interest rate sensitivity measures. During the first quarter of 2012 the duration became more negative. Therefore, the Company slightly increased its asset sensitivity primarily as a result of the new issuance of five-year debt securities and the \$700 million redemption of TARP preferred stock with short-term cash balances. Additionally, duration of the loan portfolio declined modestly and can be attributed to a reduction in the average time to reset for floating rate loans and a decline in the percentage of loans with floors from approximately 43% of floating rate loans at December 31, 2011 to 42% at March 31, 2012. The changes in income simulation sensitivity can be attributed to the same factors affecting the duration of equity. This measure is expected to show a further increase in asset sensitivity when the Company redeems the remaining TARP preferred stock.

**Market Risk – Fixed Income**

The Company engages in the underwriting and trading of municipal and corporate securities. This trading activity exposes the Company to a risk of loss arising from adverse changes in the prices of these fixed income securities.

At June 30, 2012, the Company had \$21 million of trading assets and \$105 million of securities sold, not yet purchased, compared with \$40 million and \$44 million at December 31, 2011 and \$51 million and \$43 million at June 30, 2011, respectively.

Subsequent to quarter-end, the Company exited the business of trading corporate debt securities in preparation for the expected expanded regulation of the Volcker Rule. We do not expect this to have a material impact on the Company's future earnings.

The Company is exposed to market risk through changes in fair value. The Company is also exposed to market risk for interest rate swaps used to hedge interest rate risk. Changes in the fair value of AFS securities and in interest rate swaps that qualify as cash flow hedges are included in OCI for each financial reporting period. During the second quarter of 2012, the after-tax change in OCI attributable to AFS and HTM securities was \$(3) million compared to \$0.3 million recorded in the same prior year period. The change attributable to interest rate swaps for the second quarters of 2012 and 2011 was \$(2) million and \$(5) million, respectively. If any of the AFS or HTM securities become other than temporarily impaired, the credit impairment is charged to operations. See "Investment Securities Portfolio" for additional information on OTTI.

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ZIONS BANCORPORATION AND SUBSIDIARIES

Market Risk – Equity Investments

Through its equity investment activities, the Company owns equity securities that are publicly traded. In addition, the Company owns equity securities in companies that are not publicly traded, that are accounted for under cost, fair value, equity, or full consolidation methods of accounting, depending upon the Company's ownership position and degree of involvement in influencing the investees' affairs. In either case, the value of the Company's investment is subject to fluctuation. Since the fair value of these securities may fall below the Company's investment costs, the Company is exposed to the possibility of loss. These equity investments are approved, monitored and evaluated by the Company's Equity Investment Committee.

The Company holds investments in pre-public companies through various venture capital funds. Additionally, Amegy has an alternative investments portfolio. These investments were primarily directed towards equity buyout and mezzanine funds with a key strategy of deriving ancillary commercial banking business from the portfolio companies. Early stage venture capital funds were generally not a part of the strategy since the underlying companies were typically not creditworthy.

Under provisions of the Dodd-Frank Act, the Company is allowed to fund remaining unfunded portions of existing private equity fund commitments, such as those described above, but is not allowed to make any new commitments to invest in private equity funds, except for SBIC funds.

A more comprehensive discussion of the Company's interest rate and market risk management is contained in the Company's 2011 Annual Report on Form 10-K.

Liquidity Risk Management

Liquidity risk is the possibility that the Company's cash flows may not be adequate to fund its ongoing operations and meet its commitments in a timely and cost-effective manner. Since liquidity risk is closely linked to both credit risk and market risk, many of the previously discussed risk control mechanisms also apply to the monitoring and management of liquidity risk. We manage the Company's liquidity to provide adequate funds to meet its anticipated financial and contractual obligations, including withdrawals by depositors, debt service requirements and lease obligations, as well as to fund customers' needs for credit. The management of liquidity and funding is performed centrally for both the Parent and its subsidiary banks.

Consolidated cash and interest-bearing deposits held as investments at the Parent and its subsidiaries increased to \$9.0 billion at June 30, 2012 from \$8.7 billion at March 31, 2012 and \$8.2 billion at December 31, 2011. The increase during the first six months of 2012 was mainly a result of an increase in deposits, issuance of long-term debt (net of repayments), and net loan collections, partially offset by the redemption of \$700 million of the \$1.4 billion Series D Fixed-Rate Cumulative Perpetual Preferred Stock issued to the U.S. Department of the Treasury under its Troubled Asset Relief Program ("TARP") Capital Purchase Program ("CPP") and the payment of common and preferred dividends. The build up of cash and interest-bearing deposits, rather than investing in higher-yielding long-term investments, was also due to the expected redemption of the remaining \$700 million of TARP preferred stock in the second half of 2012.

Parent Company Liquidity

The Parent's cash requirements consist primarily of debt service, investments in and advances to subsidiaries, operating expenses, income taxes, and dividends to preferred and common shareholders, including the TARP preferred stock issued to the U.S. Department of the Treasury. The Parent's cash needs are usually met through

dividends from its subsidiaries, interest and investment income, subsidiaries' proportionate share of current income taxes, equity contributed through the exercise of stock options, and long-term debt and equity issuances. During the first six months of 2012, the Parent received common dividends totaling \$88.8 million and preferred dividends totaling \$32.4 million from its bank subsidiaries. Also, the Parent received cash of \$335.8 million from its subsidiary banks as a result of the redemption of preferred stock issued to the Parent. The dividends that our subsidiary banks can pay to the Parent are restricted by current and historical earning levels, retained earnings, and risk-based and other regulatory capital requirements. During the first six months of 2012, all of the Company's subsidiary banks recorded a profit. We expect that this profitability will be sustained thus permitting additional payments of dividends by the banks to the Parent, and/or returns of capital to the Parent during the remainder of 2012. The Company has held the dividend on its common stock to \$0.01 per share per quarter to conserve both capital and cash at the Parent.

General financial market and economic conditions impact the Company's access to and cost of external financing and continued



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ZIONS BANCORPORATION AND SUBSIDIARIES

to gradually improve in the first six months of 2012. Access to funding markets for the Parent and subsidiary banks is also directly affected by the credit ratings they receive from various rating agencies. The ratings not only influence the costs associated with the borrowings, but can also influence the sources of the borrowings. The debt ratings and outlooks issued by the various rating agencies for the Company did not change during the first six months of 2012. While Moody's rates the Company's senior debt as Ba3 or noninvestment grade, Standard & Poor's, Fitch, and DBRS all rate the Company's senior debt at a low investment grade level. In addition, all four rating agencies rate the Company's subordinated debt as noninvestment grade.

During the first six months of 2012, the primary sources of additional cash to the Parent in the capital markets were (1) \$558 million issuance of four- to five-year unsecured senior notes with interest rates between 4.0% and 4.5%, proceeds net of commissions, fees and discounts were \$533 million, (2) \$67 million issuance of one- to two-year unsecured senior notes and (3) \$144 million issuance of Series F 7.9% Fixed-Rate Non-Cumulative Perpetual Preferred Stock. Primary uses of cash in the capital markets during the first six months of 2012 were (1) the redemption of \$700 million of TARP preferred stock, (2) the redemption of \$143 million Series E 11.0% preferred stock, and (3) the repayment of \$255 million variable rate senior notes that were guaranteed under the FDIC's Temporary Liquidity Guarantee Program. The Parent's cash balance was \$926 million at June 30, 2012 compared to \$512 million at March 31, 2012 and \$956 million at December 31, 2011.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents the Parent's balance sheet at June 30, 2012, December 31, 2011, and June 30, 2011.

## PARENT ONLY CONDENSED BALANCE SHEETS

| (In thousands)  | June 30,<br>2012 | December 31,<br>2011 | June 30,<br>2011 |
|---|------------------|----------------------|------------------|
| <b>ASSETS</b>   |                  |                      |                  |
| Cash and due from banks   | \$2,510          | \$ 11                | \$2,954          |
| Interest-bearing deposits   | 923,560          | 956,476              | 446,916          |
| Investment securities:  |                  |                      |                  |
| Held-to-maturity, at adjusted cost (approximate fair value of \$17,704, \$13,019 and \$13,146)      | 14,707           | 20,118               | 15,124           |
| Available-for-sale, at fair value   | 395,226          | 382,880              | 1,123,102        |
| Loans, net of unearned fees of \$0, \$0 and \$0 and allowance for loan losses of \$0, \$33 and \$28 | —                | 1,495                | 1,500            |
| Other noninterest-bearing investments   | 50,388           | 52,903               | 50,110           |
| Investments in subsidiaries:  |                  |                      |                  |
| Commercial banks and bank holding company   | 6,897,138        | 7,070,620            | 6,982,273        |
| Other operating companies   | 43,732           | 45,043               | 56,421           |
| Nonoperating – ZMFU II, Inc!  | 92,624           | 92,751               | 93,125           |
| Receivables from subsidiaries:  |                  |                      |                  |
| Other operating companies   | 20,000           | 190                  | 615              |
| Other assets  | 224,398          | 285,971              | 313,159          |
|   | \$8,664,283      | \$ 8,908,458         | \$9,085,299      |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                  |                      |                  |
| Other liabilities   | \$96,376         | \$ 104,829           | \$ 155,884       |
| Commercial paper:   |                  |                      |                  |
| Due to affiliates   | 45,995           | 45,995               | 45,993           |
| Due to others   | 2,217            | 3,063                | 14,256           |
| Other short-term borrowings:  |                  |                      |                  |
| Due to affiliates   | 5                | 5                    | 107,662          |
| Due to others   | 4,946            | 66,883               | 130,404          |
| Subordinated debt to affiliated trusts  | 309,278          | 309,278              | 309,278          |
| Long-term debt:   |                  |                      |                  |
| Due to affiliates   | 56               | 53                   | 85,070           |
| Due to others   | 1,713,439        | 1,393,044            | 1,322,159        |
| Total liabilities   | 2,172,312        | 1,923,150            | 2,170,706        |
| Shareholders' equity:   |                  |                      |                  |
| Preferred stock   | 1,800,473        | 2,377,560            | 2,329,370        |
| Common stock  | 4,157,525        | 4,163,242            | 4,158,369        |
| Retained earnings   | 1,110,120        | 1,036,590            | 931,345          |
| Accumulated other comprehensive income (loss)   | (576,147 )       | (592,084 )           | (504,491 )       |
| Total shareholders' equity  | 6,491,971        | 6,985,308            | 6,914,593        |
|   | \$8,664,283      | \$ 8,908,458         | \$9,085,299      |

<sup>1</sup> ZMFU II, Inc. is a wholly-owned nonoperating subsidiary whose sole purpose is to hold a portfolio of municipal bonds, loans and leases.

During the first six months of 2012 and 2011, the Parent's operating expenses included cash payments for interest of approximately \$57 million and \$67 million, respectively. Additionally, the Parent paid approximately \$76 million and \$75 million of dividends on preferred stock and common stock, respectively, for the same applicable periods.

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ZIONS BANCORPORATION AND SUBSIDIARIES

Repayments of short-term borrowings by the Parent exceeded new issuances, which resulted in net cash outflows of \$63 million during the first six months of 2012.

At June 30, 2012, maturities of the Company's long-term senior and subordinated debt ranged from September 2012 to March 2017.

**Subsidiary Bank Liquidity**

The subsidiary banks' primary source of funding is their core deposits, consisting of demand, savings and money market deposits, time deposits under \$100,000, and foreign deposits. At June 30, 2012, these core deposits, excluding brokered deposits, in aggregate, constituted 95.8% of consolidated deposits, compared with 95.5% of consolidated deposits at March 31, 2012 and 94.4% at June 30, 2011. On a consolidated basis, the Company's net loan to total deposit ratio is historically low at 85.4%, as compared to 86.6% as of December 31, 2011 and 89.4% as of June 30, 2011.

Historically, the Company's subsidiary banks have also obtained brokered deposits to serve as an additional source of liquidity, which is currently not needed. At June 30, 2012, these brokered deposits were \$127 million, compared with \$214 million at March 31, 2012 and \$204 million at December 31, 2011. Brokered deposits are 0.3% of total deposits at June 30, 2012.

Total deposits increased by \$61 million during the second quarter of 2012 mainly due to an increase of \$313 million in noninterest-bearing demand deposits, partly offset by a decrease of \$275 million in savings and money market deposits. For the first six months of 2012, total deposits increased by \$285 million due to an increase in noninterest-bearing demand deposits of \$387 million and savings and money market deposits of \$170 million, partially offset by a combined decrease in time and foreign deposits of \$272 million.

On November 9, 2010, the FDIC issued a final rule providing temporary unlimited insurance coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions, effective December 31, 2010 through December 31, 2012. The Company and the banking industry may experience a reduction in noninterest-bearing deposits beginning in late 2012 or in 2013 as a result of a decrease in demand for these deposits after the expiration of the temporary unlimited insurance coverage.

The FHLB system has, from time to time, been a significant source of funding and back-up liquidity for each of the Company's subsidiary banks. Zions Bank, TCBW, and TCBO are members of the FHLB of Seattle. CB&T, NSB, and NBA are members of the FHLB of San Francisco. Vectra is a member of the FHLB of Topeka and Amegy Bank is a member of the FHLB of Dallas. The FHLB allows member banks to borrow against their eligible loans to satisfy liquidity requirements. The subsidiary banks are required to invest in FHLB stock to maintain their borrowing capacity. At June 30, 2012, the amount available for additional FHLB and Federal Reserve borrowings was approximately \$13.5 billion. At June 30, 2012 the Company had a de minimus amount of long-term borrowings outstanding with the FHLB – approximately \$24 million, which was essentially unchanged from December 31, 2011. At June 30, 2012 and December 31, 2011, the subsidiary banks' total investment in FHLB stock was approximately \$115 million and \$116 million, respectively.

The Company's investment activities can provide or use cash, depending on the asset-liability management posture that is taken. For the first six months of 2012, investment securities' activities resulted in a decrease in investment securities holdings and a net increase of cash in the amount of \$103 million.

Maturing balances in our subsidiary banks' loan portfolios also provide additional flexibility in managing cash flows. Lending activity for the second quarter of 2012 resulted in a net cash outflow of \$397 million compared to a net cash outflow of \$492 million for the second quarter of 2011. For the first six months of 2012 contraction in lending activity resulted in a net cash inflow of \$18 million compared to a net cash outflow of \$537 for the first six months of 2011. A more comprehensive discussion of our liquidity management is contained in the Company's 2011 Annual Report on Form

10-K.

**Operational Risk Management**

Operational risk is the potential for unexpected losses attributable to human error, systems failures, fraud, or inadequate internal controls and procedures. In its ongoing efforts to identify and manage operational risk, the Company has a Corporate Risk Management Department whose responsibility is to help management identify and assess key risks and monitor the key internal controls and processes that the Company has in place to mitigate operational risk. We have documented controls and the Control Self Assessment related to financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 and the Federal Deposit Insurance Corporation Improvement Act of 1991.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

To manage and minimize its operating risk, the Company has in place transactional documentation requirements, systems and procedures to monitor transactions and positions, regulatory compliance reviews, and periodic reviews by the Company's internal audit and credit examination departments. In addition, reconciliation procedures have been established to ensure that data processing systems consistently and accurately capture critical data. Further, we maintain contingency plans and systems for operations support in the event of natural or other disasters. Efforts are continually underway to improve the Company's oversight of operational risk, including enhancement of risk-control self assessments and of antifraud measures reporting to the Enterprise Risk Management Committee and the Board. We also mitigate operational risk through the purchase of insurance, including errors and omissions and professional liability insurance.

## CAPITAL MANAGEMENT

We believe that a strong capital position is vital to continued profitability and to promoting depositor and investor confidence.

Note 7 of the Notes to Consolidated Financial Statements provides additional information on the Company's debt and equity transactions during the first six months of 2012 and its projected transactions during the remainder of 2012. On March 13, 2012, the Federal Reserve notified the Company that it did not object to the capital actions proposed in the Company's Capital Plan, submitted pursuant to the Federal Reserve's 2012 Capital Plan and Review (CapPR). The plan included the redemption in its entirety (\$1.4 billion) of the Company's TARP preferred stock in 2012 in two installments without the issuance of any new common or preferred stock. The second \$700 million installment is also contingent on (1) maintenance of adequate Parent Company liquidity; (2) return of \$500 million of capital from the Company's subsidiary banks to the Parent, which requires primary bank regulator approval; and (3) no material deterioration in the Company's overall financial condition. The Capital Plan also included the issuance of \$600 million of senior debt.

On March 28, 2012, the Company redeemed \$700 million, or 50%, of its TARP preferred stock. The Company expects to redeem the remaining \$700 million of TARP preferred stock in the second half of 2012.

Although total controlling interest shareholder's equity increased by 1.6% from \$6,389 million at March 31, 2012 to \$6,492 million at June 30, 2012, total controlling interest shareholders' equity decreased by 7.1% from \$6,985 million at December 31, 2011. The decrease in total controlling interest shareholders' equity from December 31, 2011 is primarily due to the redemption of \$700 million of the TARP preferred stock previously discussed and \$76.3 million of dividends paid on preferred and common stock, partially offset by \$181.4 million of net income applicable to controlling interest and \$80.0 million of convertible subordinated debt converted to preferred stock.

The Company paid \$3.7 million in dividends on common stock during the first six months of 2012. The dividends paid per share of \$0.01 were unchanged from the rate paid since the third quarter of 2009. Under the terms of the CPP, the Company may not increase the dividend on its common stock above \$0.32 per share per quarter during the period the senior preferred shares are outstanding without adversely impacting the Company's interest in the program or without permission from the U.S. Department of the Treasury. The Company's Capital Plan submitted to the Federal Reserve maintains the current common stock dividend of \$0.01 per share throughout 2012.

The Company recorded preferred stock dividends of \$100.7 million and \$81.9 million during the first six months of 2012 and 2011, respectively. Preferred dividends for the first six months of 2012 and 2011 include \$54.2 million and \$45.6 million, respectively, related to the TARP preferred stock, consisting of cash payments of \$26.1 million and \$35.0 million in the first six months of 2012 and 2011, respectively, and accretion of \$28.1 million and \$10.6 million in the first six months of 2012 and 2011, respectively, for the difference between the fair value and par amount of the TARP preferred stock when issued.

Conversions of convertible subordinated debt into preferred stock have augmented the Company's capital position and reduced future refinancing needs. From the original modification in June 2009 through June 30, 2012, \$742 million of

debt has been extinguished and \$867 million of preferred capital has been added. The following schedule shows the effect the conversions had on Tier 1 capital and outstanding convertible subordinated debt during 2011 and during the first six months of 2012.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## IMPACT OF CONVERTIBLE SUBORDINATED DEBT

| (In millions)   | Three Months Ended |                   |                      |                       |                  |                   |
|---|--------------------|-------------------|----------------------|-----------------------|------------------|-------------------|
|   | June 30,<br>2012   | March 31,<br>2012 | December 31,<br>2011 | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 |
| Preferred equity  |                    |                   |                      |                       |                  |                   |
| Convertible subordinated debt converted to preferred stock                  | \$50               | \$30              | \$15                 | \$17                  | \$138            | \$86              |
| Beneficial conversion feature reclassified from common to preferred stock   | 9                  | 5                 | 2                    | 3                     | 23               | 15                |
| Change in preferred equity  | 59                 | 35                | 17                   | 20                    | 161              | 101               |
| Common equity   |                    |                   |                      |                       |                  |                   |
| Accelerated convertible subordinated debt discount amortization, net of tax | (13 )              | (10 )             | (5 )                 | (6 )                  | (50 )            | (33 )             |
| Beneficial conversion feature reclassified from common to preferred stock   | (9 )               | (5 )              | (2 )                 | (3 )                  | (23 )            | (15 )             |
| Change in common equity   | (22 )              | (15 )             | (7 )                 | (9 )                  | (73 )            | (48 )             |
| Net impact on Tier 1 capital  | \$37               | \$20              | \$10                 | \$11                  | \$88             | \$53              |
| Convertible subordinated debt outstanding                                   | \$467              | \$518             | \$547                | \$562                 | \$579            | \$718             |

On May 7, 2012, the Company issued \$143.75 million of a new series of Tier 1 Capital qualifying perpetual preferred stock at a dividend of 7.9%. The proceeds were used to redeem all outstanding shares of its Series E fixed-rate resettable non-cumulative perpetual preferred stock on June 15, 2012. The Series E securities had an aggregate par amount of \$142.5 million and current dividend of 11.0%. The issuance of the new Series F preferred stock and redemption of the Series E preferred stock will reduce preferred stock dividends paid by the Company by approximately \$4.3 million per year.

Banking organizations are required under published regulations to maintain adequate levels of capital as measured by several regulatory capital ratios. As of June 30, 2012, the Company's capital ratios were as follows:

## CAPITAL RATIOS

|   | June 30,<br>2012 |   | December 31,<br>2011 |   | June 30,<br>2011 |   |
|---|------------------|---|----------------------|---|------------------|---|
| Tangible common equity ratio                          | 6.91             | % | 6.77                 | % | 6.95             | % |
| Tangible equity ratio                                 | 10.35            | % | 11.33                | % | 11.58            | % |
| Average equity to average assets (three months ended) | 12.37            | % | 13.27                | % | 13.42            | % |
| Risk-based capital ratios:                            |                  |   |                      |   |                  |   |
| Common equity tier 1 capital                          | 9.78             | % | 9.57                 | % | 9.36             | % |
| Tier 1 leverage                                       | 12.31            | % | 13.40                | % | 13.44            | % |
| Tier 1 risk-based capital                             | 15.03            | % | 16.13                | % | 15.87            | % |
| Total risk-based capital                              | 16.89            | % | 18.06                | % | 18.01            | % |

At June 30, 2012, regulatory Tier 1 risk-based capital and total risk-based capital were \$6,444 million and \$7,245 million, compared to \$6,333 million and \$7,157 million at March 31, 2012 and \$6,773 million and \$7,687 million at June 30, 2011, respectively.

In June 2012, the FRB, OCC, and FDIC (collectively, the Agencies) each issued Notices of Proposed Rulemaking (NPRs) that would revise and replace the Agencies' current regulatory capital rules to align with the June 2011 Bank for International Settlements regulatory framework, commonly referred to as Basel III. These capital standards meet



certain requirements of the Dodd-Frank Act. Requirements included in the proposed NPRs would establish more restrictive capital definitions, higher risk-weightings for certain asset classes, capital buffers, higher minimum capital ratios, and new “prompt corrective action” triggers and restrictions. The revisions include revised methodologies for determining risk-weighted assets for residential mortgages, unused loan commitments, securitization exposures, nonperforming assets, and counterparty credit risk. We are currently evaluating the impact of the proposed NPRs on our regulatory capital ratios. While uncertainty exists in the final form of the U.S. rules implementing the Basel III capital framework, we expect to meet the final requirements adopted by U.S. banking regulators within regulatory timelines.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## GAAP to NON-GAAP RECONCILIATIONS

## 1. Common equity Tier 1 capital

Traditionally, the Federal Reserve and other banking regulators have assessed a bank's capital adequacy based on Tier 1 capital, the calculation of which is codified in federal banking regulations. Regulators have begun supplementing their assessment of the capital adequacy of a bank based on a variation of Tier 1 capital, known as common equity Tier 1 capital. The common equity Tier 1 capital ratio is the core capital component of the Basel III standards, and we believe that it increasingly is becoming a key ratio considered by regulators, investors, and analysts. There is a difference between this ratio calculated using Basel I definitions of common equity Tier 1 capital and those definitions using Basel III rules when fully phased in (which have not yet been formalized in regulation). The common equity Tier 1 risk-based capital ratios in the Capital Ratios schedule presented previously use the current Basel I definitions for determining the numerator. Because common equity Tier 1 capital is not formally defined by GAAP or codified in the federal banking regulations, this measure is considered to be a non-GAAP financial measure and other entities may calculate them differently than the Company's disclosed calculations. Since banking regulators, investors and analysts may assess the Company's capital adequacy using common equity Tier 1 capital, we believe that it is useful to provide them the ability to assess the Company's capital adequacy on this same basis.

Common equity Tier 1 capital is often expressed as a percentage of risk-weighted assets. Under the current risk-based capital framework, a bank's balance sheet assets and credit equivalent amounts of off-balance sheet items are assigned to one of four broad "Basel I" risk categories for banks, like our banking subsidiaries, that have not adopted the Basel II "Advanced Measurement Approach." The aggregated dollar amount in each category is then multiplied by the risk weighting assigned to that category. The resulting weighted values from each of the four categories are added together and this sum is the risk-weighted assets total that, as adjusted, comprises the denominator of certain risk-based capital ratios. Tier 1 capital is then divided by this denominator (risk-weighted assets) to determine the Tier 1 capital ratio. Adjustments are made to Tier 1 capital to arrive at common equity Tier 1 capital. Common equity Tier 1 capital is also divided by the risk-weighted assets to determine the common equity Tier 1 capital ratio. The amounts disclosed as risk-weighted assets are calculated consistent with banking regulatory requirements.

The schedule below provides a reconciliation of controlling interest shareholders' equity (GAAP) to Tier 1 capital (regulatory) and to common equity Tier 1 capital (non-GAAP) using current U.S. regulatory treatment and not proposed Basel III calculations.

## COMMON EQUITY TIER 1 CAPITAL (NON-GAAP)

| (Amounts in millions)   | June 30,<br>2012 | December 31,<br>2011 | June 30,<br>2011 |   |
|---|------------------|----------------------|------------------|---|
| Controlling interest shareholders' equity (GAAP)                | \$6,492          | \$6,985              | \$6,915          |   |
| Accumulated other comprehensive loss (income)                   | 576              | 592                  | 504              |   |
| Non-qualifying goodwill and intangibles                         | (1,074)          | (1,083)              | (1,093)          | ) |
| Disallowed deferred tax assets                                  | —                | —                    | —                |   |
| Other regulatory adjustments                                    | 2                | 4                    | (1)              | ) |
| Qualifying trust preferred securities                           | 448              | 448                  | 448              |   |
| Tier 1 capital (regulatory)                                     | 6,444            | 6,946                | 6,773            |   |
| Qualifying trust preferred securities                           | (448)            | (448)                | (448)            | ) |
| Preferred stock   | (1,800)          | (2,377)              | (2,329)          | ) |
| Common equity Tier 1 capital (non-GAAP)                         | \$4,196          | \$4,121              | \$3,996          |   |
| Risk-weighted assets (regulatory)                               | \$42,891         | \$43,077             | \$42,676         |   |
| Common equity Tier 1 capital to risk-weighted assets (non-GAAP) | 9.78             | % 9.57               | % 9.36           | % |

## 2. Core net interest margin

This Form 10-Q presents a “core net interest margin” which excludes the effects of the (1) periodic discount amortization on convertible subordinated debt; (2) accelerated discount amortization on convertible subordinated debt which has been converted; and (3) additional accretion of interest income on acquired loans based on increased projected cash flows.

The schedule below provides a reconciliation of net interest margin (GAAP) to core net interest margin (non-GAAP).

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## NET INTEREST MARGIN TO CORE NET INTEREST MARGIN (NON-GAAP)

|  | Three Months Ended |                      |                  |
|--|--------------------|----------------------|------------------|
|  | June 30,<br>2012   | December 31,<br>2011 | June 30,<br>2011 |
| Net interest margin as reported (GAAP)                             | 3.62%              | 3.86%                | 3.62%            |
| Adjust for the impact on net interest margin of:                   |                    |                      |                  |
| Discount amortization on convertible subordinated debt             | 0.09%              | 0.09%                | 0.10%            |
| Accelerated discount amortization on convertible subordinated debt | 0.13%              | 0.05%                | 0.53%            |
| Additional accretion of interest income on acquired loans          | (0.12)%            | (0.14)%              | (0.18)%          |
| Core net interest margin (non-GAAP)                                | 3.72%              | 3.86%                | 4.07%            |

## 3. Income before income taxes and subordinated debt conversions

This Form 10-Q presents “income before income taxes and subordinated debt conversions” which excludes the effects of the (1) periodic discount amortization on convertible subordinated debt and (2) accelerated discount amortization on convertible subordinated debt which has been converted.

The first schedule in “Results of Operations” provides a reconciliation of income before income taxes (GAAP) to income before income taxes and subordinated debt conversions (non-GAAP).

## 4. Total shareholders’ equity to tangible equity and tangible common equity

This Form 10-Q presents “tangible equity” and “tangible common equity” which excludes goodwill and core deposit and other intangibles for both measures and preferred stock and noncontrolling interests for tangible common equity.

The following schedule provides a reconciliation of total shareholders’ equity (GAAP) to both tangible equity (non-GAAP) and tangible common equity (non-GAAP).

## TANGIBLE EQUITY (NON-GAAP) AND TANGIBLE COMMON EQUITY (NON-GAAP)

| (Amounts in millions)                 | June 30,<br>2012 | December 31,<br>2011 | June 30,<br>2011 |   |
|---------------------------------------|------------------|----------------------|------------------|---|
| Total shareholders’ equity (GAAP)     | \$6,489          | \$6,983              | \$6,913          |   |
| Goodwill                              | (1,015)          | (1,015)              | (1,015)          | ) |
| Core deposit and other intangibles    | (59)             | (68)                 | (77)             | ) |
| Tangible equity (non-GAAP) (a)        | 5,415            | 5,900                | 5,821            |   |
| Preferred stock                       | (1,800)          | (2,377)              | (2,329)          | ) |
| Noncontrolling interests              | 3                | 2                    | 1                |   |
| Tangible common equity (non-GAAP) (b) | \$3,618          | \$3,525              | \$3,493          |   |
| Total assets (GAAP)                   | \$53,407         | \$53,149             | \$51,361         |   |
| Goodwill                              | (1,015)          | (1,015)              | (1,015)          | ) |
| Core deposit and other intangibles    | (59)             | (68)                 | (77)             | ) |
| Tangible assets (non-GAAP) (c)        | \$52,333         | \$52,066             | \$50,269         |   |
| Tangible equity ratio (a/c)           | 10.35            | % 11.33              | % 11.58          | % |
| Tangible common equity ratio (b/c)    | 6.91             | % 6.77               | % 6.95           | % |

For items 2, 3 and 4, the identified adjustments to reconcile from the applicable GAAP financial measures to the non-GAAP financial measures are included where applicable in financial results or in the balance sheet presented in accordance with GAAP. We consider these adjustments to be relevant to ongoing operating results and financial position.

We believe that excluding the amounts associated with these adjustments to present the non-GAAP financial measures provides a meaningful base for period-to-period and company-to-company comparisons, which will assist regulators, investors, and analysts in analyzing the operating results or financial position of the Company and in predicting future

performance. These

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## ZIONS BANCORPORATION AND SUBSIDIARIES

non-GAAP financial measures are used by management and the Board of Directors to assess the performance of the Company's business or its financial position for evaluating bank reporting segment performance, for presentations of Company performance to investors, and for other reasons as may be requested by investors and analysts. We further believe that presenting these non-GAAP financial measures will permit investors and analysts to assess the performance of the Company on the same basis as that applied by management and the Board of Directors. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. Although these non-GAAP financial measures are frequently used by stakeholders to evaluate a company, they have limitations as an analytical tool, and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate and market risks are among the most significant risks regularly undertaken by the Company, and they are closely monitored as previously discussed. A discussion regarding the Company's management of interest rate and market risk is included in the section entitled "Interest Rate and Market Risk Management" in this Form 10-Q.

## ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2012. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2012. There were no material changes in the Company's internal control over financial reporting during the first six months of 2012.

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 10 of the Notes to Consolidated Financial Statements is incorporated by reference herein.

## ITEM 1A. RISK FACTORS

The Company believes there have been no significant changes in risk factors compared to the factors identified in Zions Bancorporation's 2011 Annual Report on Form 10-K; however, this filing contains updated disclosures related to significant risk factors discussed in "Investment Securities Portfolio," "Credit Risk Management," "Market Risk – Fixed Income," "Liquidity Risk Management," and "Capital Management."

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Share Repurchases

The following table summarizes the Company's share repurchases for the second quarter of 2012:

| Period | Total number of shares repurchased <sup>1</sup> | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Approximate dollar value of shares that may yet be purchased under the plan |
|--------|---|------------------------------|--|---|
| April  | 26,173  | \$20.08                      | —  | \$—   |
| May    | 79,868  | 19.19                        | —  | —   |
| June   | 40,240  | 17.65                        | —  | —   |

|                |         |       |   |
|----------------|---------|-------|---|
| Second quarter | 146,281 | 18.93 | — |
|----------------|---------|-------|---|

<sup>1</sup>Represents common shares acquired from employees in connection with the Company's stock compensation plan. Shares were acquired from employees to pay for their payroll taxes upon the vesting of restricted stock and settlement of restricted stock units under the "withholding shares" provision of an employee share-based compensation plan.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## ITEM 6. EXHIBITS

## a) Exhibits

| Exhibit<br>Number | Description  |   |
|-------------------|--|---|
| 3.1               | Restated Articles of Incorporation of Zions Bancorporation dated November 8, 1993, incorporated by reference to Exhibit 3.1 of Form S-4 filed on November 22, 1993.  | * |
| 3.2               | Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation dated April 30, 1997, incorporated by reference to Exhibit 3.2 of Form 10-Q for the quarter ended March 31, 2008.      | * |
| 3.3               | Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation dated April 24, 1998, incorporated by reference to Exhibit 3.3 of Form 10-Q for the quarter ended March 31, 2009.      | * |
| 3.4               | Articles of Amendment to Restated Articles of Incorporation of Zions Bancorporation dated April 25, 2001, incorporated by reference to Exhibit 3.6 of Form S-4 filed July 13, 2001.                            | * |
| 3.5               | Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation, dated December 5, 2006, incorporated by reference to Exhibit 3.5 of Form 10-K for the year ended December 31, 2011.   | * |
| 3.6               | Articles of Merger of The Stockmen's Bancorp, Inc. with and into Zions Bancorporation, effective January 17, 2007, incorporated by reference to Exhibit 3.6 of Form 10-Q for the quarter ended March 31, 2012. | * |
| 3.7               | Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation, dated July 7, 2008, incorporated by reference to Exhibit 3.1 of Form 8-K filed July 8, 2008.                          | * |
| 3.8               | Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation, dated November 12, 2008, incorporated by reference to Exhibit 3.1 of Form 8-K filed November 17, 2008.                | * |
| 3.9               | Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation, dated June 30, 2009, incorporated by reference to Exhibit 3.1 of Form 8-K filed July 2, 2009.                         | * |
| 3.10              | Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation dated June 30, 2009, incorporated by reference to Exhibit 3.10 of Form 10-Q for the quarter ended June 30, 2009.       | * |
| 3.11              | Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation dated June 1, 2010, incorporated by reference to Exhibit 3.1 of Form 8-K filed June 3, 2010.                           | * |
| 3.12              |  | * |



Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation dated June 14, 2010, incorporated by reference to Exhibit 3.1 of Form 8-K filed June 15, 2010.

- 3.13 Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation with respect to the Series F Fixed-Rate Non-Cumulative Perpetual Preferred Stock, dated May 4, 2012, incorporated by reference to Exhibit 3.1 of Form 8-K filed May 5, 2012. \*
- 3.14 Restated Bylaws of Zions Bancorporation dated November 8, 2011, incorporated by reference to Exhibit 3.13 of Form 10-Q for the quarter ended September 30, 2011. \*
- 10.1 2012 Management Incentive Compensation Plan (filed herewith).
- 10.2 Amended and Restated Zions Bancorporation 2005 Stock Option and Incentive Plan (filed herewith).
- 10.3 Standard Stock Option Award Agreement, Zions Bancorporation 2005 Stock Option and Incentive Plan (filed herewith).
- 10.4 Standard Restricted Stock Award Agreement, Zions Bancorporation 2005 Stock Option and Incentive Plan (filed herewith).
- 10.5 Standard Restricted Stock Unit Award Agreement, Zions Bancorporation 2005 Stock Option and Incentive Plan (filed herewith).
- 10.6 Third amendment to the Zions Bancorporation Deferred Compensation Plan Trust Agreement between Fidelity Management Trust Company and Zions Bancorporation, dated June 13, 2012 (filed herewith).
- 31.1 Certification by Chief Executive Officer required by Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (filed herewith).

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ZIONS BANCORPORATION AND SUBSIDIARIES

|      |   |
|------|---|
| 31.2 | Certification by Chief Financial Officer required by Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (filed herewith).  |
| 32   | Certification by Chief Executive Officer and Chief Financial Officer required by Sections 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m) and 18 U.S.C. Section 1350 (furnished herewith).  |
| 101  | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011, (ii) the Consolidated Statements of Income for the three months ended June 30, 2012 and June 30, 2011 and the six months ended June 30, 2012 and June 30, 2011, (iii) the Consolidated Statements of Comprehensive Income for the three months ended June 30, 2012 and June 30, 2011 and the six months ended June 30, 2012 and June 30, 2011, (iv) the Consolidated Statements of Changes in Shareholders' Equity for the three months ended June 30, 2012 and June 30, 2011 and the six months ended June 30, 2012 and June 30, 2011, (v) the Consolidated Statements of Cash Flows for the three months ended June 30, 2012 and June 30, 2011 and the six months ended June 30, 2012 and June 30, 2011, and (v) the Notes to the Consolidated Financial Statements (furnished herewith). |

\* Incorporated by reference

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ZIONS BANCORPORATION AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ZIONS BANCORPORATION

/s/ Harris H. Simmons  
Harris H. Simmons, Chairman, President  
and Chief Executive Officer

/s/ Doyle L. Arnold  
Doyle L. Arnold, Vice Chairman and  
Chief Financial Officer  
Date: August 8, 2012