ZIONS BANCORPORATION /UT/
Form 10-K
February 28, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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 incorporation or organization)	(Internal Revenue Service Employer Identification Number)
One South Main, 15th Floor Salt Lake City, Utah	84133
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (801) 524-4787
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Guarantee related to 8.00% Capital Securities of Zions Capital Trust B	
Convertible 6% Subordinated Notes due September 15, 2015	New York Stock Exchange
Depositary Shares each representing a 1/40th ownership interest in a	New York Stock Exchange
share of Series A Floating-Rate Non-Cumulative Perpetual Preferred	
Stock	New York Stock Exchange
Depositary Shares each representing a 1/40th ownership interest in a	
share of Series C 9.5% Non-Cumulative Perpetual Preferred Stock	New York Stock Exchange
Depositary Shares each representing a 1/40th ownership interest in a	
share of Series F 7.9% Non-Cumulative Perpetual Preferred Stock	New York Stock Exchange
Warrants to Purchase Common Stock of Zions Bancorporation	The NASDAQ Stock Market LLC
Common Stock, without par value	The NASDAQ Stock Market LLC
Depositary Shares each representing a 1/40th ownership interest in a	
share of Series G Fixed/Floating Rate Non-Cumulative Perpetual	New York Stock Exchange
Preferred Stock	The NASDAQ Stock Market LLC
Warrants (expiring November 14, 2018)	New York Stock Exchange
3.50% Senior Notes due September 15, 2015	

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý

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 ý 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 ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 ý 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 ý

Aggregate Market Value of Common Stock Held by Non-affiliates at June 30, 2012 $3,475,749,090

Number of Common Shares Outstanding at February 15, 2013 184,188,095 shares

Documents Incorporated by Reference: Portions of the Company's Proxy Statement – Incorporated into Part III

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PART I

FORWARD-LOOKING INFORMATION

Statements in this Annual Report on Form 10-K 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"); and
- 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 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 impact of executive compensation rules under the Dodd-Frank Act and banking regulations 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;
- success in gaining regulatory approvals, when required;

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- 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
- 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.

AVAILABILITY OF INFORMATION

We also make available free of charge on our website, www.zionsbancorporation.com, annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission.

GLOSSARY OF ACRONYMS

ABS	Asset-Backed Security
ACL	Allowance for Credit Losses
AFS	Available-for-Sale
ALCO	Asset/Liability Committee
ALLL	Allowance for Loan and Lease Losses
Amegy	Amegy Corporation
AOCI	Accumulated Other Comprehensive Income
ARRA	American Recovery and Reinvestment Act
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATM	Automated Teller Machine
BCBS	Basel Committee on Banking Supervision
BHC Act	Bank Holding Company Act
bps	basis points
BSA	Bank Secrecy Act
CB&T	California Bank & Trust
CDO	Collateralized Debt Obligation
CDR	Constant Default Rate
CET1	Common Equity Tier 1
CFPB	Consumer Financial Protection Bureau
CLTV	Combined Loan-to-Value Ratio
CMC	Capital Management Committee
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPP	Capital Purchase Program
CPR	Constant Prepayment Rate
CRA	Community Reinvestment Act
CRE	Commercial Real Estate
DB	Deutsche Bank AG
DBRS	Dominion Bond Rating Service
DDA	Demand Deposit Account
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DTA	Deferred Tax Asset
DTL	Deferred Tax Liability
EESA	Emergency Economic Stabilization Act
FAMC	Federal Agricultural Mortgage Corporation, or "Farmer Mac"
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation
FINRA	Financial Industry Regulatory Authority
FRB	Federal Reserve Board

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FTE	Full-time Equivalent	OTC	Over-the-Counter
GAAP	Generally Accepted Accounting Principles	OTTI	Other-Than-Temporary Impairment
GDP	Gross Domestic Product	Parent	Zions Bancorporation
GLB Act	Gramm-Leach-Bliley Act	PCAOB	Public Company Accounting Oversight Board
HECL	Home Equity Credit Line	PCI	Purchased Credit-Impaired
HTM	Held-to-Maturity	PD	Probability of Default
IA	Indemnification Asset	PIK	Payment in Kind
IFRS	International Financial Reporting Standards	REIT	Real Estate Investment Trust
ISDA	International Swap Dealer Association	RSU	Restricted Stock Unit
LCR	Liquidity Coverage Ratio	RULC	Reserve for Unfunded Lending Commitments
LGD	Loss Given Default	SBA	Small Business Administration
LIBOR	London Interbank Offered Rate	SBIC	Small Business Investment Company
Lockhart	Lockhart Funding LLC	SEC	Securities and Exchange Commission
MCC	Model Control Committee	SIFI	Systemically Important Financial Institutions
MD&A	Management's Discussion and Analysis	SOC	Securitization Oversight Committee
MVE	Market Value of Equity	SSU	Salary Stock Units
NASDAQ	National Association of Securities Dealers Automated Quotations	TARP	Troubled Asset Relief Program
NBA	National Bank of Arizona	TCBO	The Commerce Bank of Oregon
NIM	Net Interest Margin	TCBW	The Commerce Bank of Washington
NOL	Net Operating Loss	TDR	Troubled Debt Restructuring
NOW	Negotiable Order of Withdrawal	TRS	Total Return Swap
NPR	Notices of Proposed Rulemaking	Vectra	Vectra Bank Colorado
NRSRO	Nationally Recognized Statistical Rating Organization	VIE	Variable Interest Entity
NSB	Nevada State Bank	WNTC	Western National Trust Company
NSFR	Net Stable Funding Ration	ZCTB	Zions Capital Trust B
OCC	Office of the Comptroller of the Currency	Zions Bank	Zions First National Bank
OCI	Other Comprehensive Income	ZMFU	Zions Municipal Funding
OREO	Other Real Estate Owned	ZMSC	Zions Management Services Company

ITEM 1. BUSINESS

DESCRIPTION OF BUSINESS

Zions Bancorporation ("the Parent") is a financial holding company organized under the laws of the State of Utah in 1955, and registered under the BHC Act, as amended. The Parent and its subsidiaries (collectively "the Company") own and operate eight commercial banks with a total of 480 domestic branches at year-end 2012. The Company provides a full range of banking and related services through its banking and other subsidiaries, primarily in Utah, California, Texas, Arizona, Nevada, Colorado, Idaho, Washington, and Oregon. Full-time equivalent employees totaled 10,368 at year-end 2012. For further information about the Company's industry segments, see "Business Segment Results" on page 44 in MD&A and Note 21 of the Notes to Consolidated Financial Statements. For information about the Company's foreign operations, see "Foreign Operations" on page 44 in MD&A. The "Executive Summary" on page 22 in MD&A provides further information about the Company.

PRODUCTS AND SERVICES

The Company focuses on providing community banking services by continuously strengthening its core business lines of 1) small and medium-sized business and corporate banking; 2) commercial and residential development,

construction and term lending; 3) retail banking; 4) treasury cash management and related products and services; 5) residential mortgage; 6) trust and wealth management; and 7) investment activities. It operates eight different banks

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in ten Western and Southwestern states with each bank operating under a different name and each having its own board of directors, chief executive officer, and management team. The banks provide a wide variety of commercial and retail banking and mortgage lending products and services. They also provide a wide range of personal banking services to individuals, including home mortgages, bankcard, other installment loans, home equity lines of credit, checking accounts, savings accounts, time certificates of deposits of various types and maturities, trust services, safe deposit facilities, direct deposit, and 24-hour ATM access. In addition, certain banking subsidiaries provide services to key market segments through their Women's Financial, Private Client Services, and Executive Banking Groups. We also offer wealth management services through various subsidiaries, including Contango Capital Advisors and Western National Trust Company, and online and traditional brokerage services through Zions Direct and Amegy Investments.

In addition to these core businesses, the Company has built specialized lines of business in capital markets and public finance, and is a leader in SBA lending. Through its eight banking subsidiaries, the Company provides SBA 7(a) loans to small businesses throughout the United States and is also one of the largest providers of SBA 504 financing in the nation. The Company owns an equity interest in Farmer Mac and is one of the nation's top originators of secondary market agricultural real estate mortgage loans through Farmer Mac. The Company is a leader in municipal finance advisory and underwriting services.

COMPETITION

The Company operates in a highly competitive environment. The Company's most direct competition for loans and deposits comes from other commercial banks, credit unions, and thrifts, including institutions that do not have a physical presence in our market footprint but solicit via the Internet and other means. In addition, the Company competes with finance companies, mutual funds, brokerage firms, securities dealers, investment banking companies, and a variety of other types of companies. Many of these companies have fewer regulatory constraints and some have lower cost structures or tax burdens.

The primary factors in competing for business include pricing, convenience of office locations and other delivery methods, range of products offered, and the level of service delivered. The Company must compete effectively along all of these parameters to remain successful.

SUPERVISION AND REGULATION

The banking and financial services business in which we engage is highly regulated. Such regulation is intended, among other things, to improve the stability of banking and financial companies and to protect the interests of customers, including depositors. These regulations are not, however, generally intended to protect the interests of our shareholders or creditors. Described below are the material elements of selected laws and regulations applicable to the Company. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. Changes in applicable law or regulations, and in their application by regulatory agencies, cannot be predicted, but they may have a material effect on the business and results of the Company.

The Parent is a bank holding company and a financial holding company as provided by the BHC Act, as modified by the GLB Act. The BHC Act and other federal statutes, as modified by the GLB Act and the Dodd-Frank Act, provide the regulatory framework for bank holding companies and financial holding companies which have as their umbrella regulator the FRB. The functional regulation of the separately regulated subsidiaries of a bank holding company is conducted by each subsidiary's primary functional regulator and the laws and regulations administered by those regulators. The GLB Act allows our bank subsidiaries to engage in certain financial activities through financial subsidiaries. To qualify for and maintain status as a financial holding company, or to do business through a financial subsidiary, the Parent and its subsidiary banks must satisfy certain ongoing criteria. The Company currently engages

in only limited activities for which financial holding company status is required.

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The Parent's subsidiary banks and WNTC are subject to the provisions of the National Bank Act or other statutes governing national banks or, for those that are state-chartered banks, the banking laws of their various states, as well as the rules and regulations of the OCC (for those that are national banks), the FRB and the FDIC. They are also subject to periodic examination and supervision by the OCC or their respective state banking departments, the FRB, and the FDIC. Many of our nonbank subsidiaries are also subject to regulation by the FRB and other federal and state agencies. These bank regulatory agencies may exert considerable influence over our activities through their supervisory and examination role. Our brokerage and investment advisory subsidiaries are regulated by the SEC, FINRA and/or state securities regulators.

The Dodd-Frank Act
The events of the past few years have led to numerous new laws in the United States and internationally for financial institutions. The Dodd-Frank Act, which was enacted in July 2010, is one of the most far reaching legislative actions affecting the financial services industry in decades and significantly restructures the financial regulatory regime in the United States.

The Dodd-Frank Act and regulations adopted under the Dodd-Frank Act broadly affect the financial services industry by creating new resolution authorities, requiring ongoing stress testing of our capital, mandating higher capital and liquidity requirements, increasing regulation of executive and incentive-based compensation, requiring banks to pay increased fees to regulatory agencies, and requiring numerous other provisions aimed at strengthening the sound operation of the financial services sector. Among other things affecting capital standards, the Dodd-Frank Act provides that:

- the requirements applicable to large bank holding companies (those with consolidated assets of greater than $50 billion) be more stringent than those applicable to other financial companies;
- standards applicable to bank holding companies be no less stringent than those applied to insured depository institutions; and
- bank regulatory agencies implement countercyclical elements in their capital requirements.

These provisions will require us to maintain greater levels of capital and liquid assets and will limit the forms of capital that we will be able to rely upon for regulatory purposes. For example, provisions of the Dodd-Frank Act require us to deduct all trust preferred securities from our Tier 1 capital over a three-year phase-out period that began January 1, 2013. In addition, in their supervisory role with respect to our stress testing and capital planning, the bank regulatory agencies may effectively regulate certain of our capital-related actions, such as dividends and stock repurchases. As implemented by the bank regulatory agencies, the stress testing and capital plan process could substantially reduce our flexibility to respond to market developments and opportunities in such areas as capital raising and acquisitions.

The Dodd-Frank Act's provisions and related regulations also affect the fees we must pay to regulatory agencies and pricing of certain products and services, including the following:

- The assessment base for federal deposit insurance was changed to consolidated assets less tangible capital instead of the amount of insured deposits.
- The federal prohibition on the payment of interest on business transaction accounts was repealed.
- The FRB enacted regulations to limit interchange fees charged for debit card transactions to no more than 21 cents per transaction and 5 basis points ("bps") multiplied by the value of the transaction.

The Dodd-Frank Act also created the CFPB, which is responsible for promulgating regulations designed to protect consumers' financial interests and examining financial institutions for compliance with, and enforcing, those regulations. The Dodd-Frank Act adds prohibitions on unfair, deceptive or abusive acts and practices to the scope of consumer protection regulations overseen and enforced by the CFPB. The CFPB was recently established and its impact on our subsidiary banks remains uncertain. The Dodd-Frank Act subjected national banks to the possibility of further regulation by restricting the preemption of state laws by federal laws, which had enabled national banks

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and their subsidiaries to comply with federal regulatory requirements without complying with various state laws. In addition, the Act gives greater power to state attorneys general to pursue legal actions against banking organizations for violations of federal law.

The Dodd-Frank Act contains numerous provisions that limit or place significant burdens and costs on activities traditionally conducted by banking organizations, such as originating and securitizing mortgage loans and other financial assets, arranging and participating in swap and derivative transactions, proprietary trading and investing in private equity and other funds. For the affected activities, these provisions may result in increased compliance and other costs, increased legal risk and decreased scope of product offerings.

The federal regulators have proposed regulations to implement the so-called "Volcker Rule" of the Dodd-Frank Act, which would significantly restrict certain activities by covered bank holding companies, including restrictions on proprietary trading and private equity investing. The statutory provision became effective in July 2012, and banking entities subject to the Volcker Rule have until July 2014 to bring their activities and investments into compliance with the rule's requirements. However, the federal financial regulatory agencies have not yet adopted rules implementing the Volcker Rule.

The Company and other companies subject to the Dodd-Frank Act are being subjected to a number of requirements regarding the time, manner and form of compensation given to its key executives and other personnel receiving incentive compensation, which are being imposed through the supervisory process as well as published guidance and proposed rules. These requirements generally implement the compensation restrictions imposed by the Dodd-Frank Act and include documentation and governance, deferral, and claw-back requirements.

As discussed further throughout this section, many aspects of Dodd-Frank are subject to further rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company or the industry. As of the end of 2012, approximately one-third of the total regulations to implement the Dodd-Frank Act had not yet been published for comment or adopted in final form.

Capital Standards – Basel Framework

The FRB has established capital guidelines for bank holding companies. The OCC, the FDIC and the FRB have also issued regulations establishing capital requirements for banks. These bank regulatory agencies' risk-based capital guidelines are based upon the 1988 capital accord ("Basel I") of the BCBS. The BCBS is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines that each country's supervisors can use to determine the supervisory policies they apply.

In 2004, the BCBS proposed a new capital accord ("Basel II") to replace Basel I. Basel II provides two approaches for setting capital standards for credit risk, an advanced internal ratings-based approach tailored to individual institutions' circumstances, and a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in existing guidelines. Basel II also sets capital requirements for operational risk and refines the existing capital requirements for market risk exposures.

In December 2007, U.S. banking regulators published the final rule for Basel II implementation, requiring banks with over $250 billion in consolidated total assets or on-balance sheet foreign exposure of $10 billion (core banks) to adopt the advanced approaches of Basel II while allowing other banks to elect to "opt in." The Company is not required to comply with Basel II. In July 2008, the agencies issued a proposed rule that would give banking organizations that do not use the advanced approaches the option to implement a new risk-based capital framework which would adopt the standardized approach of Basel II for credit risk, the basic indicator approach of Basel II for operational risk and related disclosure requirements. A definitive rule has not been issued.

In December 2010, the BCBS released its final framework for strengthening international capital and liquidity regulation, now officially identified by the BCBS as “Basel III.” Basel III, when implemented by the U.S. bank

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regulatory agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. As currently proposed, the Basel III capital framework, among other things:

- introduces as a new capital measure, Common Equity Tier 1 ("CET1"), more commonly known in the United States as "Tier 1 Common," and defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and expands the scope of the adjustments as compared to existing regulations;
- when fully phased in on January 1, 2019, requires banks to maintain:
  - as a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7%);
  - an additional "SIFI buffer" for those large institutions deemed to be systemically important, ranging from 1.0% to 2.5%, and up to 3.5% under certain conditions; Zions is not subject to this buffer under Basel III; however, some FRB officials have indicated that when U.S. implementing regulations are proposed, they may include an additional buffer of 0% to 1.0% for financial institutions defined as systemically important under the Dodd-Frank Act but not so deemed by the BCBS;
  - a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation);
  - a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and
  - as a newly adopted international standard, a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (as the average for each quarter of the month-end ratios for the quarter); and
- provides for an additional "countercyclical capital buffer," generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a CET1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented.

The Basel III final framework also requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward will be required by regulation. One test, referred to as the liquidity coverage ratio ("LCR"), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other, referred to as the net stable funding ratio ("NSFR"), is designed to promote more medium and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incent banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source. The Basel III liquidity framework contemplates that the LCR will be subject to an observation period continuing through mid-2013 and, subject to any revisions resulting from the analyses conducted and data collected during the observation period, implemented as a minimum standard on January 1, 2015. Similarly, it contemplates that the NSFR will be subject to an observation period through mid-2016 and, subject to any revisions resulting from the analyses conducted and data collected during the observation period, implemented as a minimum standard by January 1, 2018. These new standards are subject to rulemaking by the federal regulatory authorities and their terms may well change before implementation.

In June 2012, the U.S. bank regulatory agencies issued three joint notices of proposed rulemaking (NPR) that, taken together, would implement the capital reforms of the Basel III framework and changes required by the Dodd-Frank Act. The first NPR, the Basel III NPR, generally follows the final Basel III framework described above and

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proposes higher minimum regulatory capital requirements and a more restrictive definition of regulatory capital, as well as introduces limits on dividends and other capital distributions and certain discretionary bonuses if capital conservation buffers are not held. The second NPR, the Standardized Approach NPR, proposes changes to the current, Basel I derived generalized risk-based capital requirements for determining risk-weighted assets that expands the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50%, and 100%) to a much larger number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. Lastly, the Advanced Approaches NPR proposes changes to the advanced approaches rules to be consistent with requirements of Basel II in its most current form and with the Dodd-Frank Act. The U.S. bank regulatory agencies have not proposed rules implementing the final liquidity framework of Basel III and have not determined to what extent they will apply to U.S. banks that are not large, internationally active banks.

Although the Basel III NPR does not specify an effective date or implementation date, it was contemplated that it would coincide with the international Basel III implementation schedule, which commenced on January 1, 2013. The Standardized Approach NPR contemplated an effective date of January 1, 2015, subject to early adoption at the option of subject institutions. However, in November 2012, the U.S. bank regulatory agencies announced that they do not expect any of the three NPRs implementing Basel III in the United States to become effective on January 1, 2013. There can be no guarantee that the Basel III and the Standardized Approach NPRs will be adopted in their current form, what changes may be made before adoption, or when ultimate adoption will occur. Given that the Basel III rules are subject to change, and the scope and content of capital regulations that the U.S. banking agencies may adopt under Dodd-Frank is uncertain, we cannot be certain of the impact new capital regulations will have on our capital ratios.

Stress Testing, Prudential Standards, and Early Remediation
As a bank holding company with assets greater than $50 billion, the Company is required by the Dodd-Frank Act to participate in an annual stress test known as the Capital Plan Review. The Company timely submitted its capital plan and stress test results to the FRB in January 2013. In this capital plan, the Company was required to forecast under a variety of economic scenarios for nine quarters ending the fourth quarter of 2014, its estimated regulatory capital ratios under Basel I rules, its Tier 1 common ratio under Basel I rules, the same ratios under Basel III rules, and its GAAP tangible common equity ratio; as noted, implementing regulations that define how many of these ratios are to be calculated by U.S. institutions have not been adopted. Under the implementing regulations for the Capital Plan Review, bank holding company may generally raise and redeem capital, pay dividends and repurchase stock and take similar capital-related actions only under a capital plan as to which the FRB has not objected.

In December 2011, the FRB published new proposed regulations entitled “Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies,” which if adopted would apply to all bank holding companies with assets greater than $50 billion. The comment period on these proposed regulations for systemically important financial institutions (Proposed SIFI Rules) expired April 30, 2012, but except as described below regarding stress testing, the Proposed SIFI Rules have not become final as of February 2013. The Proposed SIFI Rules would implement many of the proposed aspects of the Basel III capital and liquidity regime, and would specify conditions under which a bank holding company would be placed under enhanced nonpublic or public supervision and restrictions. The Proposed SIFI Rules would also require each covered institution to establish a risk committee of its board of directors that would include a “risk expert.” The Proposed SIFI Rules proposed to expand the stress testing requirements to include, among other things, stress testing by the FRB under three economic and financial scenarios: baseline, adverse and severely adverse scenarios. In October 2012, the Federal Reserve published final rules implementing that portion of the Proposed SIFI Rules expanding the stress testing requirements (including public disclosure of results).

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act, or FDICIA, requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to

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those that fall below one or more prescribed minimum capital ratios. Pursuant to FDICIA, the FDIC promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Under the prompt corrective action provisions of FDICIA, an insured depository institution generally will be classified as well-capitalized if it has a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a Tier 1 leverage ratio of at least 5%, and an insured depository institution generally will be classified as undercapitalized if its total risk-based capital is less than 8% or its Tier 1 risk-based capital or leverage ratio is less than 4%. An institution that, based upon its capital levels, is classified as "well-capitalized," "adequately capitalized" or "undercapitalized" may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. The June 2012 Basel III NPR described above would also revise the prompt corrective action regime by (i) introducing a CETI ratio requirement at every level (other than critically undercapitalized), with the required CETI ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be well-capitalized. At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits. Furthermore, if a bank is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the federal bank regulator, and the holding company must guarantee the performance of that plan.

Other Regulation

The Company is subject to a wide range of other requirements and restrictions contained in both the laws of the United States and the states in which its banks and other subsidiaries operate. These regulations include but are not limited to the following:

- Requirements that the Parent serve as a source of strength for its banking subsidiaries. The FRB has a policy that a bank holding company is expected to act as a source of financial and managerial strength to each of its bank subsidiaries and, under appropriate circumstances, to commit resources to support each subsidiary bank. The Dodd-Frank Act codifies this policy as a statutory requirement. In addition, the regulators may order an assessment of the Parent if the capital of one of its bank subsidiaries were to fall below capital levels required by the regulators.
- Limitations on dividends payable by subsidiaries. A substantial portion of the Parent's cash, which is used to pay dividends on our common and preferred stock and to pay principal and interest on our debt obligations, is derived from dividends paid by the Parent's subsidiary banks. These dividends are subject to various legal and regulatory restrictions. See Note 18 of the Notes to Consolidated Financial Statements.
- Limitations on dividends payable to shareholders. The Parent's ability to pay dividends on both its common and preferred stock may be subject to regulatory restrictions. See discussion under "Liquidity Management Actions" on page 84.
- Cross-guarantee requirements. All of the Parent's subsidiary banks are insured by the FDIC. Each commonly controlled FDIC-insured bank can be held liable for any losses incurred, or reasonably expected to be incurred, by the FDIC due to another commonly controlled FDIC-insured bank being placed into receivership, and for any assistance provided by the FDIC to another commonly controlled FDIC-insured bank that is subject to certain conditions indicating that receivership is likely to occur in the absence of regulatory assistance.
- Safety and soundness requirements. Federal and state laws require that our banks be operated in a safe and sound manner. We are subject to additional safety and soundness standards prescribed in the Federal Deposit Insurance Corporate Improvement Act of 1991, including standards related to internal controls, information systems, internal audit, loan documentation, credit underwriting, interest rate exposure, asset growth and

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compensation, as well as other operational and management standards deemed appropriate by the federal banking agencies. The safety and soundness requirements give bank regulatory agencies significant latitude in their supervisory authority over us.

- Requirements for approval of acquisitions and activities and restrictions on other activities. Prior approval of the FRB is required under the BHC Act for a financial holding company to acquire or hold more than a 5% voting interest in any bank, to acquire substantially all the assets of a bank or to merge with another financial or bank holding company. The BHC Act also requires approval for certain nonbanking acquisitions, restricts the activities of bank holding companies that are not financial holding companies to banking, managing or controlling banks and other activities that the FRB has determined to be so closely related to banking as to be a proper incident thereto and restricts the nonbanking activities of a financial holding company to those that are permitted for financial holding companies or that have been determined by the FRB to be financial in nature, incidental to financial activities, or complementary to a financial activity. Laws and regulations governing national and state-chartered banks contain similar provisions concerning acquisitions and activities.
- Limitations on the amount of loans to a borrower and its affiliates.
- Limitations on transactions with affiliates. The Dodd-Frank Act significantly expanded the coverage and scope of the limitations on affiliate transactions within a banking organization.
- Restrictions on the nature and amount of any investments and ability to underwrite certain securities.
- Requirements for opening of branches and the acquisition of other financial entities.
- Fair lending and truth in lending requirements to provide equal access to credit and to protect consumers in credit transactions.
- Broker-dealer and investment advisory regulations. Certain of our subsidiaries are broker-dealers that engage in securities underwriting and other broker-dealer activities. These companies are registered with the SEC and are members of FINRA. Certain other subsidiaries are registered investment advisers under the Investment Advisers Act of 1940, as amended, and as such are supervised by the SEC. They are also subject to various U.S. federal and state laws and regulations. These laws and regulations generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the carrying on of business for failure to comply with such laws.
- Provisions of the GLB Act and other federal and state laws dealing with privacy for nonpublic personal information of individual customers.
- CRA requirements. The CRA requires banks to help serve the credit needs in their communities, including providing credit to low and moderate income individuals. If the Company or its subsidiaries fail to adequately serve their communities, penalties may be imposed including denials of applications to add branches, relocate, add subsidiaries and affiliates, and merge with or purchase other financial institutions.
- Anti-money laundering regulations. The BSA, Title III of the Uniting and Strengthening of America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“USA Patriot Act”), and other federal laws require financial institutions to assist U.S. Government agencies in detecting and preventing money laundering and other illegal acts by maintaining policies, procedures and controls designed to detect and report money laundering, terrorist financing, and other suspicious activity.

The Parent is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, both as administered by the SEC. As a company listed on the NASDAQ Global Select Market, the Parent is subject to NASDAQ listing standards for quoted companies.

The Company is subject to the Sarbanes-Oxley Act of 2002, the Dodd-Frank Act, and other federal and state laws and regulations which address, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. NASDAQ has also adopted corporate

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governance rules, which are intended to allow shareholders and investors to more easily and efficiently monitor the performance of companies and their directors.

The Board of Directors of the Parent has implemented a comprehensive system of corporate governance practices. This system includes Corporate Governance Guidelines, a Code of Business Conduct and Ethics for Employees, a Directors Code of Conduct, a Related Party Transaction Policy, Stock Ownership and Retention Guidelines, a Compensation Clawback Policy and charters for the Audit, Risk Oversight, Executive Compensation and Nominating and Corporate Governance Committees. More information on the Company's corporate governance practices is available on the Company's website at www.zionsbancorporation.com. (The Company's website is not part of this Annual Report on Form 10-K.) In addition, the Company has adopted policies prohibiting hedging and restricting pledging of Company stock by insiders.

The Company has adopted policies, procedures and controls to address compliance with the requirements of the banking, securities and other laws and regulations described above or otherwise applicable to the Company. The Company intends to make appropriate revisions to reflect any changes required.

Regulators, Congress, state legislatures and international consultative bodies continue to enact rules, laws, and policies to regulate the financial services industry and public companies and to protect consumers and investors. The nature of these laws and regulations and the effect of such policies on future business and earnings of the Company cannot be predicted.

GOVERNMENT MONETARY POLICIES

The earnings and business of the Company are affected not only by general economic conditions, but also by policies adopted by various governmental authorities. The Company is particularly affected by the monetary policies of the FRB, which affect both short-term and long-term interest rates and the national supply of bank credit. The tools available to the FRB which may be used to implement monetary policy include:

- open-market operations in U.S. Government and other securities;
- adjustment of the discount rates or cost of bank borrowings from the FRB;
- imposing or changing reserve requirements against bank deposits;
- term auction facilities collateralized by bank loans; and
- other programs to purchase assets and inject liquidity directly in various segments of the economy.

These methods are used in varying combinations to influence the overall growth or contraction of bank loans, investments and deposits, and the interest rates charged on loans or paid for deposits.

In view of the changing conditions in the economy and the effect of the FRB's monetary policies, it is difficult to predict future changes in loan demand, deposit levels and interest rates, or their effect on the business and earnings of the Company. FRB monetary policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

ITEM 1A. RISK FACTORS

The Company's Board of Directors has established a Risk Oversight Committee and an Enterprise Risk Management policy and has appointed an Enterprise Risk Management Committee to oversee and implement the policy. In addition to credit and interest rate risk, the Committee also monitors the following risk areas: market risk, liquidity risk, operational risk, compliance risk, information technology risk, strategic risk, compensation-related risk, and reputation risk.

The following list describes several risk factors which are significant to the Company including but not limited to:

The Company has been and could continue to be negatively affected by adverse economic conditions.

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The United States and many other countries recently faced a severe economic crisis, including a major recession. These adverse economic conditions have negatively affected the Company's assets, including its loans and securities portfolios, capital levels, results of operations, and financial condition. In response to the economic crisis, the United States and other governments established a variety of programs and policies designed to mitigate the effects of the crisis. These programs and policies appear to have had a stabilizing effect in the United States following the severe financial crisis that occurred in the second half of 2008, but adverse
economic conditions continue to exist in the United States and globally. Concerns about the European Union's sovereign debt crisis have continued to cause uncertainty for financial markets globally. It is possible economic conditions may again become more severe or that adverse economic conditions may continue for a substantial period of time. In addition, economic uncertainty resulting from possible changes in the ratings of sovereign debt issued by the United States and other nations, and fiscal imbalances in the United States, at federal, state and municipal levels, in the European Union and in other countries, combined with political difficulties in resolving these imbalances, may directly or indirectly adversely impact economic conditions faced by the Company and its customers. Any increase in the severity or duration of adverse economic conditions, including a recession or continued weak economic recovery, would adversely affect the Company.

Our information systems may experience an interruption or security breach.
We rely heavily on communications and information systems to conduct our business. We, our customers, and other financial institutions with which we interact, are subject to ongoing, continuous attempts to penetrate key systems by individual hackers, organized criminals, and in some cases, state-sponsored organizations. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems, misappropriation of funds, and theft of proprietary Company or customer data. While we have policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability.

The regulation of incentive compensation under the Dodd-Frank Act may adversely affect our ability to retain our highest performing employees.
The bank regulatory agencies have published guidance and proposed regulations which limit the manner and amount of compensation that banking organizations provide to employees. These regulations and guidance may adversely affect our ability to retain key personnel. If we were to suffer such adverse effects with respect to our employees, our business, financial condition and results of operations could be adversely affected, perhaps materially.

Stress testing and capital management under Dodd-Frank may limit our ability to increase dividends, repurchase shares of our stock, and access the capital markets.
Under stress testing and capital management standards implemented by bank regulatory agencies under Dodd-Frank, we may declare dividends, repurchase common stock, redeem preferred stock and debt, access capital markets for certain types of capital, make acquisitions, and enter into similar transactions only with bank regulatory approval. Any transactions not contemplated in our annual capital plan will require FRB approval. These limitations may significantly limit our ability to respond to and take advantage of market developments.

The Dodd-Frank Act imposes significant new limitations on our business activities and subjects us to increased regulation and additional costs.
The Dodd-Frank Act has material implications for the Company and the entire financial services industry. The Act places significant additional regulatory oversight and requirements on financial institutions, including the Company,

with more than $50 billion of assets. In addition, among other things, the Act:

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- affects the levels of capital and liquidity with which the Company must operate and how it plans capital and liquidity levels (including a phased-in elimination of the Company's existing trust preferred securities as Tier 1 capital);
- subjects the Company to new and/or higher fees paid to various regulatory entities, including but not limited to deposit insurance fees to the FDIC;
- impacts the Company's ability to invest in certain types of entities or engage in certain activities;
- impacts a number of the Company's business and risk management strategies;
- regulates the pricing of certain of our products and services and restricts the revenue that the Company generates from certain businesses;
- subjects the Company to new capital planning actions, including stress testing or similar actions and timing expectations for capital-raising;
- subjects the Company to supervision by the Consumer Financial Protection Bureau, with very broad rule-making and enforcement authorities;
- grants authority to state agencies to enforce state and federal laws against national banks;
- subjects the Company to new and different litigation and regulatory enforcement risks; and
- limits the amount and manner of compensation paid to executive officers and employees generally.

Because the responsible agencies are still in the process of proposing and finalizing many of the regulations required under the Dodd-Frank Act, the full impact of this legislation on the Company, its business strategies, and financial performance cannot be known at this time, and may not be known for some time. Individually and collectively, regulations adopted under the Dodd-Frank Act may materially adversely affect the Company's business, financial condition, and results of operations.

U.S. regulatory agencies, in response to the adoption of Basel III and Title I of the Dodd-Frank Act, will require us to raise our capital and liquidity to levels that may exceed those that the market considers to be optimal.

Basel III was adopted in December 2010, and was updated in January 2013, by the BCBS and provides an international framework for the establishment of bank capital and liquidity standards. Title I of the Dodd-Frank Act requires that banking organizations of our size undergo regular stress testing of their capital, assets and profitability and authorizes bank regulatory agencies to promulgate new capital and liquidity standards. In 2012, the U.S. bank regulatory agencies published proposed regulations that, consistent with Basel III and the Dodd-Frank Act, would redefine the components of capital and require higher capital ratios for all banking organizations. The U.S. banking agencies are currently developing proposed rules to implement the Basel III liquidity framework for U.S. banking organizations. Maintaining higher capital and liquidity levels may reduce our profitability and performance measures.

Economic and other circumstances may require us to raise capital at times or in amounts that are unfavorable to the Company.

The Company's subsidiary banks must maintain certain risk-based and leverage capital ratios as required by their banking regulators which can change depending upon general economic conditions and their particular condition, risk profile and growth plans. Compliance with capital requirements may limit the Company's ability to expand and has required, and may require, capital investment from the Parent. These uncertainties and risks created by the legislative and regulatory uncertainties discussed above may themselves increase the Company's cost of capital and other financing costs.

Credit quality has adversely affected us and may continue to adversely affect us.

Credit risk is one of our most significant risks. Although most credit quality indicators continued to improve during 2012, the Company's credit quality may continue to show weakness in some loan types and markets in which the Company operates as the economic recovery progresses.

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If the strength of the U.S. economy in general and the strength of the local economies in which we and our subsidiary banks conduct operations decline further, this could result in, among other things, further deterioration in credit quality and/or continued reduced demand for credit, including a resultant adverse effect on the income from our loan portfolio, an increase in charge-offs and an increase in the allowance for loan and lease losses; if such developments occur, we may be required to raise additional capital.

Failure to effectively manage our credit concentration or counterparty risk could adversely affect us.
Increases in concentration or counterparty risk could adversely affect the Company. Concentration risk across our loan and investment portfolios could pose significant additional credit risk to the Company due to exposures which perform in a similar fashion. Counterparty risk could also pose additional credit risk, but it is routinely monitored and analyzed.

Failure to effectively manage our interest rate risk and prolonged periods of low interest rates could adversely affect us.
Net interest income is the largest component of the Company's revenue. The management of interest rate risk for the Company and its subsidiary banks is centralized and overseen by an Asset Liability Management Committee appointed by the Company's Board of Directors. We have been successful in our interest rate risk management as evidenced by achieving a relatively stable net interest margin over the last several years when interest rates have been volatile and the rate environment challenging; however, a failure to effectively manage our interest rate risk could adversely affect us. Factors beyond the Company's control can significantly influence the interest rate environment and increase the Company's risk. These factors include competitive pricing pressures for our loans and deposits, adverse shifts in the mix of deposits and other funding sources, and volatile market interest rates subject to general economic conditions and the policies of governmental and regulatory agencies, in particular the FRB.

The Company remains in an "asset sensitive" interest rate risk position, and the FRB has stated its expectations that short-term interest rates may remain low until unemployment is reduced to below 6.5% or inflationary expectations exceed 2.5%. Such a scenario may continue to create or exacerbate margin compression for us as a result of repricing of longer-term loans.

Our ability to maintain required capital levels and adequate sources of funding and liquidity has been and may continue to be adversely affected by market conditions.
We are required to maintain certain capital levels in accordance with banking regulations and any capital requirements imposed by our regulators. We must also maintain adequate funding sources in the normal course of business to support our operations and fund outstanding liabilities. Our ability to maintain capital levels, sources of funding, and liquidity has been and could continue to be impacted by changes in the capital markets in which we operate and deteriorating economic and market conditions.

Each of our subsidiary banks must remain well-capitalized and meet certain other requirements for us to retain our status as a financial holding company. Failure to comply with those requirements could result in a loss of our financial holding company status if such conditions are not corrected within 180 days or such longer period as may be permitted by the FRB, although we do not believe that the loss of such status would have an appreciable effect on our operations or financial results. In addition, failure by our bank subsidiaries to meet applicable capital guidelines or to satisfy certain other regulatory requirements can result in certain activity restrictions or a variety of enforcement remedies available to the federal regulatory authorities that include limitations on the ability to pay dividends, the issuance by the regulatory authority of a capital directive to increase capital and the termination of deposit insurance by the FDIC.

Funding availability continued to improve during 2012. However, because liquidity stresses are often a consequence of the occurrence of other risks, they will continue to be a risk factor in 2013 and beyond for the Company, the Parent and its subsidiary banks.

The quality and liquidity of our asset-backed investment securities portfolio has adversely affected us and may continue to adversely affect us.
The Company's asset-backed investment securities portfolio includes collateralized debt obligations collateralized by trust preferred securities issued by bank holding companies, insurance companies, and REITs that may have some exposure to construction loan, commercial real estate, and the subprime markets and/or to other categories of distressed assets. In addition, asset-backed securities also include structured asset-backed CDOs (also known as diversified structured finance CDOs) which have exposure to subprime and home equity mortgage securitizations. Many factors, some of which are beyond the Company's control, significantly influence the fair value and impairment status of these securities. These factors include, but are not limited to, prepayments, defaults, deferrals and restructurings by debt issuers, the views of banking regulators, changes in our accounting treatment with respect to these securities, rating agency downgrades of securities, lack of market pricing of securities, or the return of market pricing that varies from the Company's current model valuations, and changes in prepayment rates and future interest rates. For example, during the fourth quarter of 2012, we disclosed our expectation that increased prepayments experienced in our CDO portfolio during the fourth quarter would lead to higher other-than-temporary impairment charges as a result of the use of higher constant prepayment rate speeds in our valuation models for these securities. Additionally we also disclosed that, following discussions with federal banking regulators, we were reviewing assumptions in our valuation models for certain bank holding company trust preferred securities that underlie certain of our CDO securities – namely, those that are currently deferring distributions and nearing the end of their deferral periods. We disclosed that, in combination with the effect of the higher CPR speeds, this could lead to the incurrence of significant OTTI in our CDO portfolio. The occurrence of one or more of these factors could result in additional OTTI charges with respect to our CDO portfolio, which could be material. See "Investment Securities Portfolio" on page 49 for further details.

We and/or the holders of our securities could be adversely affected by unfavorable rating actions from rating agencies.
Our ability to access the capital markets is important to our overall funding profile. This access is affected by the ratings assigned by rating agencies to us, certain of our affiliates, and particular classes of securities that we and our affiliates issue. The interest rates that we pay on our securities are also influenced by, among other things, the credit ratings that we, our affiliates, and/or our securities receive from recognized rating agencies. In the past, rating agencies have downgraded our credit ratings. Further downgrades to us, our affiliates, or our securities could increase our costs or otherwise have a negative effect on our results of operations or financial condition or the market prices of our securities.

We could be adversely affected by accounting, financial reporting, and regulatory and compliance risk.
The Company is exposed to accounting, financial reporting, and regulatory/compliance risk. The level of regulatory/compliance oversight has been heightened in recent periods as a result of rapid changes in regulations that affect financial institutions. The administration of some of these regulations and related changes has required the Company to comply before their formal adoption.

The Company provides to its customers, invests in, and uses for its own capital, funding, and risk management needs, a number of complex financial products and services. Estimates, judgments, and interpretations of complex and changing accounting and regulatory policies are required in order to provide and account for these products and services. Changes in our accounting policies or in accounting standards could materially affect how we report our financial results and conditions. Identification, interpretation and implementation of complex and changing accounting standards as well as compliance with regulatory requirements therefore pose an ongoing risk.

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We could be adversely affected by legal and governmental proceedings.
The Company is subject to risks associated with legal claims, fines, litigation, and regulatory and other government proceedings. The Company's exposure to these proceedings has increased and may further increase as a result of stresses on customers, counterparties and others arising from the current economic environment; new regulations promulgated under recently adopted statutes; and the creation of new examination and enforcement bodies.

We could be adversely affected by failure in our internal controls.
A failure in our internal controls could have a significant negative impact not only on our earnings, but also on the perception that customers, regulators and investors may have of the Company. We continue to devote a significant amount of effort, time and resources to continually strengthening our controls and ensuring compliance with complex accounting standards and regulations.

We could be adversely affected as a result of acquisitions.
From time to time the Company makes acquisitions including the acquisition of assets and liabilities of failed banks from the FDIC acting as a receiver. The FDIC-supported transactions are subject to loan loss sharing agreements. Failure to comply with the terms of the agreements could result in the loss of indemnification from the FDIC. The success of any acquisition depends, in part, on our ability to realize the projected cost savings from the acquisition and on the continued growth and profitability of the acquisition target. We have been successful with most prior acquisitions, but it is possible that the merger integration process with an acquired company could result in the loss of key employees, disruptions in controls, procedures and policies, or other factors that could affect our ability to realize the projected savings and successfully retain and grow the target's customer base and revenues.

ITEM 1B. UNRESOLVED STAFF COMMENTS
There are no unresolved written comments that were received from the SEC's staff 180 days or more before the end of the Company's fiscal year relating to our periodic or current reports filed under the Securities Exchange Act of 1934.

ITEM 2. PROPERTIES
At December 31, 2012, the Company operated 480 domestic branches, of which 285 are owned and 195 are leased. The Company also leases its headquarters offices in Salt Lake City, Utah. Other operations facilities are either owned or leased. The annual rentals under long-term leases for leased premises are determined under various formulas and factors, including operating costs, maintenance, and taxes. For additional information regarding leases and rental payments, see Note 17 of the Notes to Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS
The information contained in Note 17 of the Notes to Consolidated Financial Statements is incorporated by reference herein.

ITEM 4. MINE SAFETY DISCLOSURES
None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES
MARKET INFORMATION

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The Company's common stock is traded on the NASDAQ Global Select Market under the symbol "ZION." The last reported sale price of the common stock on NASDAQ on February 15, 2013 was $24.34 per share.

The following schedule sets forth, for the periods indicated, the high and low sale prices of the Company's common stock, as quoted on NASDAQ.

	2012		2011	
	High	Low	High	Low
1st Quarter	$22.81	$16.40	$25.60	$22.08
2nd Quarter	21.55	17.45	24.92	21.36
3rd Quarter	21.68	17.58	24.71	14.07
4th Quarter	22.66	19.03	18.51	13.18

During 2012, the Company redeemed its Series D Fixed-Rate Cumulative Perpetual Preferred Stock ("TARP CPP")in two installments of $700 million each on March 28, 2012 and September 26, 2012. The total of $1.4 billion was issued by the U.S. Department of the Treasury under the TARP CPP.
On May 7, 2012, the Company issued $143.75 million of a new series of Tier 1 Capital qualifying perpetual preferred stock with an annual 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%.
See Note 13 of the Notes to Consolidated Financial Statements for further information regarding equity transactions during 2012.
As of February 15, 2013, there were 5,606 holders of record of the Company's common stock.

EQUITY CAPITAL AND DIVIDENDS
We have 4,400,000 authorized shares of preferred stock without par value and with a liquidation preference of $1,000 per share. As of December 31, 2012, 60,093, 798,257, and 143,750 of preferred shares series A, C, and F, respectively, have been issued and are outstanding. In addition, holders of $458 million of the Company's subordinated debt have the right to convert that debt into either Series A or C preferred stock. In general, preferred shareholders may receive asset distributions before common shareholders; however, preferred shareholders have only limited voting rights generally with respect to certain provisions of the preferred stock, the issuance of senior preferred stock, and the election of directors. Preferred stock dividends reduce earnings available to common shareholders and are paid quarterly in arrears. The redemption amount is computed at the per share liquidation preference plus any declared but unpaid dividends. The series A, C, and F shares are registered with the SEC. See Note 13 of the Notes to Consolidated Financial Statements for further information regarding the Company's preferred stock.
The frequency and amount of common stock dividends paid during the last two years are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2012	$0.01	$0.01	$0.01	$0.01
2011	0.01	0.01	0.01	0.01

The Company's Board of Directors approved a dividend of $0.01 per common share payable on February 25, 2013 to shareholders of record on February 18, 2013. The Company expects to continue its policy of paying regular cash dividends on a quarterly basis, although there is no assurance as to future dividends because they depend on future earnings, capital requirements, financial condition, and regulatory approvals.

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SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The information contained in Item 12 of this Form 10-K is incorporated by reference herein.

SHARE REPURCHASES

The following schedule summarizes the Company's share repurchases for the fourth quarter of 2012.

Period	Total number of shares repurchased [1]	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
October	1,302	$21.05	—	$—
November	192	21.58	—	—
December	981	21.04	—	—
Fourth quarter	2,475	21.09	—	

[1]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 restricted stock units under the "withholding shares" provision of an employee share-based compensation plan.

PERFORMANCE GRAPH

The following stock performance graph compares the five-year cumulative total return of Zions Bancorporation's common stock with the Standard & Poor's 500 Index and the KBW Bank Index, both of which include Zions Bancorporation. The KBW Bank Index is a market capitalization-weighted bank stock index developed and published by Keefe, Bruyette & Woods, Inc., a nationally recognized brokerage and investment banking firm specializing in bank stocks. The index is composed of 24 geographically diverse stocks representing national money center banks and leading regional financial institutions. The stock performance graph is based upon an initial investment of $100 on December 31, 2007 and assumes reinvestment of dividends.

	2007	2008	2009	2010	2011	2012
Zions Bancorporation	100.0	54.6	28.7	54.4	36.6	48.2
KBW Bank Index	100.0	52.5	51.6	63.7	48.9	65.1
S&P 500	100.0	63.0	79.7	91.7	93.6	108.6

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ITEM 6. SELECTED FINANCIAL DATA
FINANCIAL HIGHLIGHTS

(In millions, except per share amounts)	2012/2011 Change	2012	2011	2010	2009	2008
For the Year						
Net interest income	-1 %	$1,731.9	$1,756.2	$1,714.3	$1,885.6	$1,958.1
Noninterest income	-16 %	419.9	498.2	453.6	816.0	204.2
Total revenue	-5 %	2,151.8	2,254.4	2,167.9	2,701.6	2,162.3
Provision for loan losses	-81 %	14.2	74.5	852.7	2,017.1	648.6
Noninterest expense	-4 %	1,595.0	1,658.6	1,718.3	1,671.3	1,474.7
Impairment loss on goodwill	— %	1.0	—	—	636.2	353.8
Income (loss) before income taxes	+4 %	541.6	521.3	(403.1)	(1,623.0)	(314.8)
Income taxes (benefit)	-3 %	193.4	198.6	(106.8)	(401.3)	(43.4)
Net income (loss)	+8 %	348.2	322.7	(296.3)	(1,221.7)	(271.4)
Net income (loss) applicable to noncontrolling interests	-18 %	(1.3)	(1.1)	(3.6)	(5.6)	(5.1)
Net income (loss) applicable to controlling interest	+8 %	349.5	323.8	(292.7)	(1,216.1)	(266.3)
Net earnings (loss) applicable to common shareholders	+16 %	178.6	153.4	(412.5)	(1,234.4)	(290.7)
Per Common Share						
Net earnings (loss) – diluted	+17 %	0.97	0.83	(2.48)	(9.92)	(2.68)
Net earnings (loss) – basic	+17 %	0.97	0.83	(2.48)	(9.92)	(2.68)
Dividends declared	— %	0.04	0.04	0.04	0.10	1.61
Book value[1]	+7 %	26.73	25.02	25.12	27.85	42.65
Market price – end		21.40	16.28	24.23	12.83	24.51
Market price – high[2]		22.81	25.60	30.29	25.52	57.05
Market price – low		16.40	13.18	12.88	5.90	17.53
At Year-End						
Assets	+4 %	55,512	53,149	51,035	51,123	55,093
Net loans and leases	+1 %	37,665	37,258	36,830	40,260	41,712
Deposits	+8 %	46,133	42,876	40,935	41,841	41,316
Long-term debt	+20 %	2,337	1,954	1,943	2,033	2,622
Shareholders' equity:						
Preferred equity	-53 %	1,128	2,377	2,057	1,503	1,582
Common equity	+7 %	4,924	4,608	4,591	4,190	4,920
Noncontrolling interests	-50 %	(3)	(2)	(1)	17	27
Performance Ratios						
Return on average assets		0.66 %	0.63 %	(0.57)%	(2.25)%	(0.50)%
Return on average common equity		3.76 %	3.32 %	(9.26)%	(28.35)%	(5.69)%
Net interest margin		3.57 %	3.77 %	3.70 %	3.91 %	4.15 %
Capital Ratios[1]						

Equity to assets	10.90 %	13.14 %	13.02 %	11.17 %	11.85 %
Tier 1 leverage	10.96 %	13.40 %	12.56 %	10.38 %	9.99 %
Tier 1 risk-based capital	13.38 %	16.13 %	14.78 %	10.53 %	10.22 %
Total risk-based capital	15.05 %	18.06 %	17.15 %	13.28 %	14.32 %
Tangible common equity	7.09 %	6.77 %	6.99 %	6.12 %	5.89 %
Tangible equity	9.15 %	11.33 %	11.10 %	9.16 %	8.91 %
Selected Information					
Average common and common-equivalent shares (in thousands)	183,236	182,605	166,054	124,443	108,908
Common dividend payout ratio	4.14 %	4.80 %	na	na	na
Full-time equivalent employees	10,368	10,606	10,524	10,529	11,011
Commercial banking offices	480	486	495	491	513
ATMs	585	589	601	602	625

[1] At year-end.

[2] The actual high price for 2008 was $107.21. However, this trading price was an anomaly resulting from electronic orders at the opening of the market on September 19, 2008 in response to the SEC's announcement (prior to the market opening that day) of its temporary emergency action suspending short selling in financial companies. The closing price on September 19, 2008 was $52.83.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS

EXECUTIVE SUMMARY

Company Overview

Zions Bancorporation ("the Parent") and subsidiaries (collectively "the Company," "Zions," "we," "our," "us") together compr $56 billion financial holding company headquartered in Salt Lake City, Utah. The Company is considered a "systemically important" financial institution under the Dodd-Frank Act.

- As of December 31, 2012, the Company was the 20th largest domestic bank holding company in terms of deposits and is included in the S&P 500 and NASDAQ Financial 100 indices. It is the largest independent regional banking company in the western U.S.
- At December 31, 2012, the Company operated banking businesses through 480 domestic branches in ten western and southwestern states.
- The Company ranked in the top 10 nationally for loans provided to small businesses, under both the Small Business Administration's 7(a) and 504 programs.
- It has been awarded numerous "Excellence" awards by Greenwich Associates, having received 13 awards for the 2012 survey. Only 11 banks received more than 10 awards, while the nation's largest banks received a median three such awards.
- The Company provides also public finance, wealth management and brokerage services.
- Revenues and profits are primarily derived from commercial customers.

Long-Term Strategy

We strive to maintain a local community/regional bank approach for customer-facing elements of our business. We believe that our target customers, consisting largely of small and mid-sized businesses, appreciate local branding, product customization and speedy decision-making by local management. By retaining a significant degree of autonomy in product offerings and pricing, we believe our banks have a sustainable competitive advantage over larger national banks where loan and deposit products are often homogeneous. However, we strive to centralize noncustomer facing operations, such as risk and capital management, and technology and operations. By centralizing many of these functions, we believe we can generally achieve greater economies of scale and stronger risk management, and that our portfolio of community banks has superior access to the capital markets, investment portfolio and treasury management, liquidity resources, and technological advances than do smaller independent community banks.

Our strategy is driven by four key factors:

- focus on growth markets;
- maintain a sustainable competitive advantage over large national and global banks by keeping many decisions that affect customers local;
- maintain a sustainable competitive advantage over community banks through superior products, productivity, efficiency and a lower cost of capital; and
- centralize and standardize policies and oversight of key risks, technology and operations.

Focus on Growth Markets

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The Company seeks to grow both organically and through acquisitions in growth markets. The states in our geographic footprint have experienced higher rates of economic growth than other states. Our footprint is well diversified by industry, strong business formation rates, real estate development and general economic expansion. While some states in our footprint experienced a significant slowing in economic activity during the recent recession, others have experienced above-average growth and stronger resistance to the economic downturn. We believe the Company can continue to experience above-average revenue growth in the long term, in part because the majority of our footprint is concentrated in states that have above average GDP, population, and job growth, and where the economies are well diversified.

- GDP growth in our footprint has exceeded nominal U.S. GDP by an average of 1.1% per year (compounded) over the last ten years; i.e., from 2001-2011, nominal U.S. GDP grew by 3.9%, while nominal GDP in Zions' footprint (weighted by 12/31/12 assets) grew by 5.1%.
- Job creation within the Zions footprint greatly exceeded the national rate during the past ten years. U.S. nonfarm payroll jobs increased by 3.4% during the last ten years; however, job creation in Zions' footprint increased by 11.4%.

The higher economic growth indicators of GDP and job creation in our footprint are driven by the economies of Texas, California and Utah where more than 75% of the Company's assets are located.

Texas has a well diversified economy that is the third largest in the United States. Significant drivers of its growth are the energy, health care, manufacturing, real estate, and computer technology sectors. These sectors have propelled the Texas economy to outperform the nation, as employers have added jobs in the past 12 months, which has resulted in the unemployment rate declining to 6.1% compared to the national rate of 7.8%. Amegy's three primary markets, Houston, Dallas and San Antonio, experienced job growth in 2012. Amegy has $13 billion in assets, which represent 24% of the Company's assets. In addition, the Texas economic environment benefits from business-friendly growth policies, affordable housing markets, and a relatively small percentage of homeowner borrowers in a negative equity situation. See "Business Segment Results" on page 44 for further discussion on the 2012 performance of Amegy.

California's economy is the largest in the United States, representing approximately 13% of the nation's GDP and is based on a diverse group of business sectors. The state has been experiencing improvements in residential and CRE values. Additionally, voters recently approved increases in taxes to shore up the state's budget shortfall. However, state and local finances remain under strain; California has one of the lowest state credit ratings, and several major municipalities filed for or remained under bankruptcy protection in 2012. California Bank & Trust's ("CB&T") primary markets – the major metropolitan areas in California including the San Francisco Bay area, Los Angeles County, Orange County, and San Diego – continued to experience economic improvements in 2012 compared to 2011. CB&T has approximately $11 billion in assets, which represent 20% of the Company's assets. Trends in unemployment, home foreclosures, and bank credit problems continue to improve throughout California, resulting in corresponding reductions in problem credits and nonperforming assets at CB&T. The state's unemployment rate declined from its peak as follows – 12.4% in October 2010, 11.2% in December 2011, and 9.8% in December 2012 – but remains well above the 7.8% national average. Unemployment rates are much lower in CB&T's primary markets compared to the state as a whole. See "Business Segment Results" on page 44 for further discussion on the 2012 performance of CB&T.

The Utah economy is primarily based on the energy, agriculture, real estate, computer technology, education, health care, and financial services sectors. During 2012, Utah employment grew at a 2.9% rate compared to the national employment growth rate of 1.4%. This growth decreased Utah's overall unemployment rate to 5.2% in 2012 from 5.8% in 2011. Zions Bank is the second largest full-service commercial bank in the state of Utah as measured by domestic deposits, and operates in all submarkets of the state. Zions Bank has approximately $18 billion in assets, which represent 32% of the Company's assets. In addition, the Utah state government has been recognized for its policies promoting a business-friendly climate, providing a predictable and stable tax policy, and controlling

government spending levels. See "Business Segment Results" on page 44 for further discussion on the 2012 performance of Zions Bank.

Keep Decisions That Affect Customers Local

We believe that over the long term, ensuring that local management teams retain the authority over many of the decisions that affect their customers is a strategy that ultimately generates superior growth in our banking businesses, as supported by stronger organic loan and deposit growth relative to other banks.

- We operate eight different community/regional banks, each under a different name, and each with its own charter, chief executive officer and management team.
- We believe that this approach allows us to attract and retain exceptional management, and provides service of the highest quality to our targeted customers. The results of this service are evident in the results of the Greenwich Associates annual survey, wherein the Company consistently ranks "Excellent" for overall satisfaction among small and middle-market businesses.
- This structure helps to ensure that many of the decisions related to customers are made at a local level:
  - branding and marketing strategies;
  - product offerings and pricing;
  - credit decisions (within the limits of established corporate policy); and
  - relationship management strategies and the integration of various business lines.

Maintain a Sustainable Competitive Advantage Over Community Banks

To create a sustainable competitive advantage over other smaller community banks, we focus on achieving product selection, productivity, economies of scale, availability of liquidity, and a lower cost of capital. Compared to community banks:

- We use the combined scale of all of our banking operations to create a broad product offering.
- Our larger capital base and product offerings allows us to lend to business customers of a wide range of sizes, from small businesses to large companies.
- For certain products for which economies of scale are believed to be critical, the Company "manufactures" the product centrally or is able to obtain services from third-party vendors at lower costs due to volume-driven pricing power.
- Our combined size and diversification affords us superior access to the capital markets for debt and equity financing; over the long term, this advantage has historically, and should in the future, result in a lower cost of capital than our subsidiary banks could achieve on their own.

Centralize and Standardize Policies and Oversight of Key Risks

We seek to standardize policies and practices related to the management of key risks in order to assure a consistent risk profile in an otherwise decentralized management model. Among these key risks and functions are credit, interest rate, liquidity, and market risks.

- The Company conducts regular stress testing of the loan portfolio using multiple economic scenarios. Such tests help to identify pockets of risk and enable management to reduce risk.
- The Company oversees credit risk using a single credit policy and specialists in business, commercial real estate consumer lending, and in concentration risk management.
- The Company regularly measures interest rate and liquidity risk and uses capital markets instruments to adjust risks to within Board-approved levels.
- The Company centrally monitors and oversees operational risk. Centralized internal audit, credit examination, and compliance functions test compliance with established policies.

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MANAGEMENT'S OVERVIEW OF 2012 PERFORMANCE

The Company reported net earnings applicable to common shareholders for 2012 of $178.6 million or $0.97 per diluted common shared compared to $153.4 million or $0.83 per diluted common share for 2011.

While we are encouraged with the 2012 results, we are also encouraged by future opportunities to expand our return on equity through both financing and operating channels.

Areas Experiencing Strength in 2012

- The Company improved its profitability, generating a 5.18% tangible return on average tangible common equity compared to 4.72% in 2011. Two major items had a significant adverse impact on profitability during the year: 1) amortization of the discount related to convertible subordinated debt, and 2) securities impairment losses on investment securities, net of securities gains. Together, these items reduced earnings by approximately $148.1 million pretax.
- Common equity Tier 1 capital improved and we began to reduce the cost of our high-cost capital structure (see Chart 3). In 2012, we fully redeemed our $1.4 billion TARP CPP preferred stock. We also refinanced our Series E preferred shares with the lower-cost Series F preferred shares, which resulted in an annualized $91 million preferred dividend expense in the fourth quarter of 2012 compared to an annualized $178 million preferred dividend expense in the fourth quarter of 2011. Our Common Equity Tier 1 ratio further improved to 9.80% at December 31, 2012.
- Asset quality improved significantly, with the Company experiencing a 30% decline in nonperforming lending-related assets (see Chart 2) and a 66% decline in net charge-offs. As a result, credit costs, including the provision for loan losses, other real estate expense, and credit-related expense, declined more than 60%.
- Loans, our primary revenue driver, increased $407 million, or 1.1%, compared to December 31, 2011, including increases of $809 million in commercial and industrial, $429 million in 1-4 family residential, and $180 million in commercial real estate term loans. This loan growth came despite the net run-off of $570 million in owner occupied loans, $326 million in construction and land development loans, and $223 million in FDIC-supported loans, all of which were planned reductions to reduce risk. Unfunded lending commitments increased $1.7 billion in 2012, which is expected to result in improved loan growth in 2013.
- Despite a difficult interest rate environment and modest loan growth, we successfully maintained relatively stable net interest income in 2012 compared to 2011 (see Chart 1). We also worked to contain operating costs. Noninterest expense, excluding other real estate and credit-related expenses, was relatively stable during the year, increasing at a rate less than inflation of only 0.4%.

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Areas Experiencing Weakness in 2012

- Our net interest margin declined to 3.57% from 3.77% in 2011, but continued to remain reasonably strong relative to other peer banks. This decline was predominately due to the substantial increase in low-yielding money market investments, which was driven by a strong increase in noninterest-bearing demand deposits. Additional pressure on the NIM in 2012 was also due to loan maturities and resets. Many loans that were originated in prior years had higher rates than market rates during 2012, and thus when such loans mature or the rates reset, the yield frequently declines compared to the prior yield.
- High cost debt and preferred equity weighed significantly on returns. The high cost of debt and preferred equity is a byproduct of our efforts to stabilize the Company's capital base during the recent recession. While we issued fewer common shares than many banks to shore up our capital base, we did issue high cost debt and perpetual preferred stock.
- While some credit quality ratios, such as net charge-offs as a percentage of average loans, have improved to pre-recession levels, other ratios, such as nonperforming lending-related assets as a percentage of loans and other real estate owned, are still inferior to long-term averages.

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Areas of Focus for 2013

- Reduce costs related to high-cost debt and preferred equity, as previously discussed.
- Increase the loan growth rate, primarily through continued strong business lending and additional growth in residential mortgage lending.
- Further reduce nonaccrual and classified loans.
- Increase fee income through changes to product pricing, improved product distribution, and improved cross sales.
- Carefully manage expenses, including expenses related to loan quality other than the provision for loan losses, e.g., other real estate and credit-related expenses.

Schedule 1 presents the key drivers of the Company's performance during 2012 and 2011:

Schedule 1
KEY DRIVERS OF PERFORMANCE
2012 COMPARED TO 2011

Driver	2012	2011	Change better/(worse)
	(In billions)		
Average net loans and leases	$37.0	$36.9	0.27 %
Average money market investments	7.9	5.4	46 %
Average noninterest-bearing deposits	16.7	14.5	15 %
Average total deposits	43.4	41.3	5 %
	(In millions)		
Net interest income	$1,731.9	$1,756.2	(1)%
Provision for loan losses	(14.2)	(74.5)	81 %
Net impairment losses on investment securities	(104.1)	(33.7)	(209)%
Other noninterest income	524.0	531.9	(1)%
Noninterest expense	1,596.0	1,658.6	4 %
Nonaccrual loans [2]	648	911	29 %
Net interest margin	3.57 %	3.77 %	(20) bps
Ratio of nonperforming lending-related assets to net loans and leases and other real estate owned [1]	1.96 %	2.83 %	87 bps
Ratio of total allowance for credit losses to net loans and leases outstanding	2.66 %	3.10 %	44 bps
Common equity Tier 1 capital ratio	9.80 %	9.57 %	23 bps

[1] Includes loans for sale
[2] Includes FDIC-supported loans

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

Note 1 of the Notes to Consolidated Financial Statements contains a summary of the Company's significant accounting policies. Further explanations of significant accounting policies are included where applicable in the remaining Notes to Consolidated Financial Statements. Discussed below are certain significant accounting policies that we consider critical to the Company's financial statements. These critical accounting policies were selected because the amounts

affected by them are significant to the financial statements. Any changes to these amounts, including changes in estimates, may also be significant to the financial statements. We believe that an understanding of certain of these policies, along with the related estimates we are required to make in recording the financial

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transactions of the Company, is important to have a complete picture of the Company's financial condition. In addition, in arriving at these estimates, we are required to make complex and subjective judgments, many of which include a high degree of uncertainty. The following discussion of these critical accounting policies includes the significant estimates related to these policies. We have discussed each of these accounting policies and the related estimates with the Audit Committee of the Board of Directors.

We have included where applicable in this document sensitivity schedules and other examples to demonstrate the impact of the changes in estimates made for various financial transactions. The sensitivities in these schedules and examples are hypothetical and should be viewed with caution. Changes in estimates are based on variations in assumptions and are not subject to simple extrapolation, as the relationship of the change in the assumption to the change in the amount of the estimate may not be linear. In addition, the effect of a variation in one assumption is in reality likely to cause changes in other assumptions, which could potentially magnify or counteract the sensitivities.

Fair Value Estimates

The Company measures or monitors many of its assets and liabilities on a fair value basis. Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. To increase consistency and comparability in fair value measures, current accounting guidance has established a three-level hierarchy to prioritize the valuation inputs among (1) observable inputs that reflect quoted prices in active markets, (2) inputs other than quoted prices with observable market data, and (3) unobservable data such as the Company's own data or single dealer nonbinding pricing quotes.

When observable market prices are not available, fair value is estimated using modeling techniques such as discounted cash flow analysis. These modeling techniques utilize assumptions that market participants would use in pricing the asset or the liability, including assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, the related life of the asset and applicable growth rate, the risk of nonperformance, and other related assumptions.

The selection and weighting of the various fair value techniques may result in a fair value higher or lower than carrying value. Considerable judgment may be involved in determining the amount that is most representative of fair value.

For assets and liabilities recorded at fair value, the Company's policy is to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements for those items where there is an active market. In certain cases, when market observable inputs for model-based valuation techniques may not be readily available, the Company is required to make judgments about assumptions market participants would use in estimating the fair value of the financial instrument. The models used to determine fair value adjustments are periodically evaluated by management for relevance under current facts and circumstances.

Changes in market conditions may reduce the availability of quoted prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. Therefore, when market data is not available, the Company would use valuation techniques requiring more management judgment to estimate the appropriate fair value.

Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary measure of accounting. Fair value is used on a nonrecurring basis to measure certain assets or liabilities (including HTM securities, loans held for sale, and OREO) for impairment or for disclosure purposes in accordance with current accounting guidance.

Impairment analysis also relates to long-lived assets, goodwill, and core deposit and other intangible assets. An impairment loss is recognized if the carrying amount of the asset is not likely to be recoverable and exceeds its fair

value. In determining the fair value, management uses models and applies the techniques and assumptions previously discussed.

Investment securities are valued using several methodologies which depend on the nature of the security, availability of current market information, and other factors. Certain CDOs are valued using an internal model and the assumptions are analyzed for sensitivity. “Investment Securities Portfolio” on page 49 provides more information regarding this analysis.

Investment securities are reviewed formally on a quarterly basis for the presence of OTTI. The evaluation process takes into account current market conditions, the fair value of the security, and many other factors. The decision to deem these securities OTTI is based on a specific analysis of the structure of each security and an evaluation of the underlying collateral. 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. The “more likely than not” criteria is a lower threshold than the “probable” criteria.

Notes 1, 5, 7, 9 and 20 of the Notes to Consolidated Financial Statements and “Investment Securities Portfolio” on page 49 contain further information regarding the use of fair value estimates.

Allowance for Credit Losses

The allowance for credit losses includes the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses provides for probable losses that have been identified with specific customer relationships and for probable losses believed to be inherent in the loan portfolio, but which have not been specifically identified. The determination of the appropriate level of the allowance is based on periodic evaluations of the portfolios. This process includes a quantitative analysis, as well as a qualitative review of its results. The qualitative review requires a significant amount of judgment, and is described in more detail in Note 6 of the Notes to Consolidated Financial Statements.

The reserve for unfunded lending commitments provides for potential losses associated with off-balance sheet lending commitments and standby letters of credit. The reserve is estimated using the same procedures and methodologies as for the allowance for loan losses, plus assumptions regarding the probability and amount of unfunded commitments being drawn.

There are numerous components that enter into the evaluation of the allowance for loan losses, which includes a quantitative and a qualitative process. Although we believe that our processes for determining an appropriate level for the allowance adequately address the various components that could potentially result in credit losses, the processes and their elements include features that may be susceptible to significant change. Any unfavorable differences between the actual outcome of credit-related events and our estimates and projections could require an additional provision for credit losses. As an example, if a total of $1.5 billion of Pass grade loans were to be immediately classified as Special Mention, Substandard or Doubtful (as defined in Note 6 of the Notes to Consolidated Financial Statements) in the same proportion and in the same loan categories as the existing criticized and classified loans to the whole portfolio, the quantitatively determined amount of the allowance for loan losses at December 31, 2012 would increase by approximately $76 million. This sensitivity analysis is hypothetical and has been provided only to indicate the potential impact that changes in the level of the criticized and classified loans may have on the allowance estimation process.

Although the qualitative process is subjective, it represents the Company’s best estimate of qualitative factors impacting the determination of the allowance for loan losses. Such factors include but are not limited to national and

regional economic trends and indicators. We believe that given the procedures we follow in determining the allowance for loan losses for the loan portfolio, the various components used in the current estimation processes are appropriate.

Note 6 of the Notes to Consolidated Financial Statements and "Credit Risk Management" on page 64 contain further information and more specific descriptions of the processes and methodologies used to estimate the allowance for credit losses.

Accounting for Goodwill

Goodwill is initially recorded at fair value and is subsequently evaluated at least annually for impairment in accordance with current accounting guidance. We perform this annual test as of October 1 of each year, or more often if events or circumstances indicate that carrying value may not be recoverable. The goodwill impairment test for a given reporting unit (generally one of our subsidiary banks) compares its fair value with its carrying value. If the carrying amount exceeds fair value, an additional analysis must be performed to determine the amount, if any, by which goodwill is impaired.

To determine the fair value, we generally use a combination of up to three separate methods: comparable publicly traded financial service companies (primarily banks and bank holding companies) in the western and southwestern states ("Market Value"); where applicable, comparable acquisitions of financial services companies in the western and southwestern states ("Transaction Value"); and the discounted present value of management's estimates of future cash flows. Critical assumptions that are used as part of these calculations include:

- selection of comparable publicly traded companies based on location, size, and business focus and composition;
- selection of market comparable acquisition transactions based on location, size, business focus and composition, and date of the transaction;
- the discount rate, which is based on Zions estimate of its cost of capital, applied to future cash flows;
- the potential future earnings and cash flows of the reporting unit;
- the relative weight given to the valuations derived by the three methods described; and
- the control premium associated with reporting units.

We apply a control premium in the Market Value approach to determine the reporting units' equity values. Control premiums represent the ability of a controlling shareholder to change how the Company is managed and can cause the fair value of a reporting unit as a whole to exceed its market capitalization. Based on a review of historical bank acquisition transactions within the Company's geographic footprint, and a comparison of the target banks' market values 30 days prior to the announced transaction to the deal value, we have determined that a control premium of 25% was appropriate at the most recent test date.

Since estimates are an integral part of the impairment computations, changes in these estimates could have a significant impact on any calculated impairment amount. Estimates include economic conditions, which impact the assumptions related to interest and growth rates, loss rates and imputed cost of equity capital. The fair value estimates for each reporting unit incorporate current economic and market conditions, including Federal Reserve monetary policy expectations and the impact of legislative and regulatory changes. Additional factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, loan losses, changes in growth trends, cost structures and technology, changes in equity market values and merger and acquisition valuations, and changes in industry conditions.

Weakening in the economic environment, a decline in the performance of the reporting units or other factors could cause the fair value of one or more of the reporting units to fall below carrying value, resulting in a goodwill impairment charge. Additionally, new legislative or regulatory changes not anticipated in management's expectations may cause the fair value of one or more of the reporting units to fall below the carrying value, resulting in a goodwill impairment charge. Any impairment charge would not affect the Company's regulatory capital ratios, tangible common equity ratio, or liquidity position.

During the fourth quarter of 2012, we performed our annual goodwill impairment evaluation of the entire organization, effective October 1, 2012. Upon completion of the evaluation process, we concluded that the Commerce Bank of Oregon was the only one of our subsidiary banks that was impaired. The Company recorded an impairment charge of $1 million, which was the total amount of goodwill associated with that subsidiary. Furthermore, the evaluation process determined that the fair values of Amegy, CB&T, and Zions Bank exceeded their carrying values by 18%, 33% and 15%, respectively. Additionally, we performed a hypothetical sensitivity analysis on the discount rate assumption to evaluate the impact of an adverse change to this assumption. If the discount rate applied to future earnings were increased by 100 bps, then the fair values of Amegy, CB&T, and Zions Bank would exceed their carrying values by 12%, 28%, and 5%, respectively. Note 9 of the Notes to Consolidated Financial Statements contains additional information related to goodwill.

Accounting for Derivatives

Our interest rate risk management strategy involves the use of hedging to mitigate our exposure to potential adverse effects from changes in interest rates.

The derivative contracts used by the Company are exchange-traded or OTC. Exchange-traded derivatives consist of forward currency exchange contracts, which are part of the Company’s services provided to commercial customers. OTC derivatives consist of interest rate swaps, options and futures contracts.

We record all derivatives at fair value on the balance sheet. When quoted market prices are not available, the valuation of derivative instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. These future net cash flows, however, are susceptible to change due primarily to fluctuations in interest rates (most significantly), and foreign exchange rates. As a result, the estimated values of these derivatives will change over time as cash is received and paid and as market conditions change. As these changes take place, they may have a positive or negative impact on our estimated valuations.

We incorporate credit valuation adjustments to appropriately reflect both the Company’s own nonperformance risk and the respective counterparty’s nonperformance risk in the fair value measurements of its OTC derivatives, based on a total expected exposure credit model. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, current threshold amounts, mutual puts, and guarantees. Additionally, we actively monitor counterparty credit ratings for significant changes.

Notes 1, 7 and 20 of the Notes to Consolidated Financial Statements and “Interest Rate and Market Risk Management” on page 78 contain further information on our use of derivatives and the methodologies used to estimate fair value.

Income Taxes

The Company is subject to the income tax laws of the United States, its states and other jurisdictions where the Company conducts business. These laws are complex and subject to different interpretations by the taxpayer and the various taxing authorities. In determining the provision for income taxes, management must make judgments and estimates about the application of these laws and related regulations. In the process of preparing the Company’s tax returns, management attempts to make reasonable interpretations of the tax laws. These interpretations are subject to challenge by the tax authorities upon audit or to reinterpretation based on management’s ongoing assessment of facts and evolving case law.

The Company had net Deferred Tax Assets (“DTAs”) of $406 million at December 31, 2012, compared to $509 million at December 31, 2011. The most significant portions of the deductible temporary differences relate to (1) the allowance for loan losses and (2) fair value adjustments or impairment write-downs related to securities. No valuation

allowance has been recorded as of December 31, 2012 related to DTAs except for a full valuation reserve

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related to certain acquired net operating losses from an immaterial nonbank subsidiary. 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 (1) carry back net operating losses to prior tax periods, (2) implement tax planning strategies that are prudent and feasible, (3) utilize the reversal of taxable temporary differences to offset deductible temporary differences, and (4) generate future taxable income.

After 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.

On a quarterly basis, management assesses the reasonableness of its effective tax rate based upon its current best estimate of net income and the applicable taxes expected for the full year. Deferred tax assets and liabilities are also reassessed on a regular basis. Reserves for contingent tax liabilities are reviewed quarterly for adequacy based upon developments in tax law and the status of examinations or audits. The Company has tax reserves at December 31, 2012 of approximately $1.8 million, net of federal and/or state benefits, for uncertain tax positions primarily for various state tax contingencies in several jurisdictions.

Note 14 of the Notes to Consolidated Financial Statements and “Income Taxes” on page 31 contain additional information.

RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS
Note 2 of the Notes to Consolidated Financial Statements discusses the expected impact of accounting pronouncements recently issued but not yet required to be adopted. Where applicable, the other Notes to Consolidated Financial Statements and MD&A discuss new accounting pronouncements adopted during 2012 to the extent they materially affect the Company’s financial condition, results of operations, or liquidity.

RESULTS OF OPERATIONS
In 2012, the Company reclassified credit card interchange fee income from interest and fees on loans to other service charges, commissions and fees. Additionally, income on factored receivables was reclassified from other service charges, commissions and fees to interest and fees on loans. There was no change in net earnings for any prior year presented and the reclassification did not significantly impact the Company’s net interest margin. See Note 1 of the Notes to Consolidated Financial Statements for additional information.
The Company reported net earnings applicable to common shareholders for 2012 of $178.6 million, or $0.97 per diluted share, compared to $153.4 million, or $0.83 per diluted share for 2011. The following changes had a favorable impact on net earnings:
- $60.3 million decrease in the provision for loan losses;
- $57.8 million decrease in other real estate expense;
- $20.5 million decrease in FDIC premiums;
- $13.4 million increase in dividends and other investment income; and
- $11.9 million increase in loan sales and servicing income.

The impact of these items was partially offset by the following:
- $70.4 million increase in net impairment losses on investment securities;
- $24.2 million decrease in net interest income;
- $16.8 million increase in fair value and nonhedge derivative loss;
- $16.5 million decrease in other noninterest income; and
- $13.7 million increase in the provision for unfunded lending commitments.

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The Company reported net earnings applicable to common shareholders for 2011 of $153.4 million, or $0.83 per diluted share, compared to a net loss applicable to common shareholders of $412.5 million, or $2.48 per diluted share for 2010. The significant improvement in net earnings was mainly caused by the following favorable changes:

- $778.2 million decrease in the provision for loan losses;
- $67.2 million decrease in other real estate expense;
- $51.7 million decrease in net impairment losses on investment securities;
- $41.9 million increase in net interest income; and
- $38.1 million decrease in FDIC premiums.

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

- $305.4 million increase in income tax expense;
- $48.9 million increase in salaries and employee benefits;
- $47.5 million increase in preferred stock dividends;
- $25.3 million decrease in service charges and fees on deposit accounts; and
- $14.5 million decrease in gain on subordinated debt exchange.

During 2009, the Company executed a subordinated debt modification and exchange transaction. The original discount on the resulting convertible subordinated debt was $679 million and the remaining discount at December 31, 2012 was $149 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 into 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”).

Excluding the impact of these noncash expenses, income before income taxes and subordinated debt conversions for 2012 was $616.4 million compared to $682.8 million for 2011, as shown in Schedule 2:

Schedule 2
IMPACT OF CONVERTIBLE SUBORDINATED DEBT

(In millions)	Year Ended December 31,		
	2012	2011	2010
Income (loss) before income taxes (GAAP)	$541.6	$521.3	$(403.1)
Convertible subordinated debt discount amortization	43.3	46.0	58.0
Accelerated convertible subordinated debt discount amortization	31.5	115.6	172.4
Income (loss) before income taxes and subordinated debt conversions (non-GAAP)	$616.4	$682.9	$(172.7)

The impact of the conversion of subordinated debt into preferred stock is further discussed in “Capital Management” on page 88.

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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 the Company's revenue. For 2012, taxable-equivalent net interest income was $1,750.2 million, compared to $1,776.4 million and $1,736.0 million for 2011and 2010, respectively. The tax rate used for calculating all taxable-equivalent adjustments was 35% for all periods presented.

Net interest margin in 2012 vs. 2011

The net interest margin was 3.57% and 3.77% for 2012 and 2011, respectively. The 20 bps decrease was primarily caused by:

- lower yields on loans; and
- increased balance of low-yielding money market investments.

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

- decreased accelerated amortization on convertible subordinated debt; and
- lower cost of funding due to continued favorable change in the mix of funding sources and rates.

Even though the Company's average loan portfolio, excluding FDIC-supported loans, was $359 million higher in 2012 than in the previous year, the average interest rate earned on those assets was 41 bps lower. The decline in interest income was primarily caused by (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.

During 2012, most of the Company's excess liquidity was invested in money market assets, primarily deposits with the Federal Reserve Bank. Average money market investments increased to 16.2% of total interest-earning assets in 2012 compared to 11.4% in the previous year. The average rate earned by these investments was 0.27% in 2012, essentially unchanged from 2011.

Noninterest-bearing demand deposits provided the Company with low cost funding and comprised 38.4% of average total deposits in 2012 compared to 35.2% in 2011. Additionally, the average rate paid on interest-bearing deposits in 2012 decreased by 18 bps from the previous year.

Net interest margin in 2011 vs. 2010

In 2011 the net interest margin increased by 7 bps to 3.77% compared to 3.70% in 2010. The increase was primarily caused by:

- lower amortization and accelerated amortization expense on convertible subordinated debt;
- lower rates paid on interest-bearing deposits; and
- lower cost of funding due to favorable change in the mix of funding sources and rates.

The impact of these positive developments was partially offset by:

- decreased loan portfolio and lower yields on loans; and
- increased balance of, and lower rates earned on low-yielding money market investments.

The average rate paid on interest-bearing deposits declined 21 bps to 0.48% in 2011 from 0.69% in 2010. The decline in interest rates paid during 2011 reflects a lower interest rate environment, and management's efforts to control excess liquidity while preserving key customer relationships. Average noninterest-bearing demand deposits increased during 2011 and were 35.2% of average total deposits compared to 31.9% in 2010.

The average loan portfolio, excluding FDIC-supported loans, decreased to $36.0 billion in 2011 from $37.1 billion in 2010. The average interest rate earned on these loans declined 20 bps to 5.34% in 2011 from 5.54% in 2010.
Chart 4 illustrates recent trends in the net interest margin and the average federal funds rate.
See “Interest Rate and Market Risk Management” on page 78 for further discussion of how we manage the portfolios of interest-earning assets, interest-bearing liabilities, and associated risk.
The spread on average interest-bearing funds was 3.16%, 3.21%, and 3.08% for 2012, 2011, and 2010, respectively. The spread on average interest-bearing funds for 2012 was affected by the same factors that had an impact on the net interest margin.
We believe the following factors may positively impact net interest income in the next several quarters: decreased level of nonperforming assets, decreased long-term debt service cost, and moderate loan growth. However, net loan growth has proven to be difficult to forecast, even though our pipelines and new commitment originations remain relatively strong. We also believe the following factors may adversely affect net interest income: competitive loan pricing conditions, lower yields on resetting or maturing older loans, and declines in the reference index rates for adjustable rate loans. On balance, we expect the trend in net interest income to be generally stable for the next several quarters.

The unamortized discount on the convertible subordinated debt was $149 million as of December 31, 2012, or 32.6% of the $458 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. At December 31, 2011 the unamortized discount on the convertible subordinated debt was $224 million, or 41% of the $547 million of convertible subordinated notes which were outstanding at that time.

The Company expects to remain “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 more than most peers, and it expects to maintain this more asset sensitive position for what may be 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 interest 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. See ”Interest Rate Risk” on page 79 for additional information.

Schedule 3 summarizes the average balances, the amount of interest earned or incurred and the applicable yields for interest-earning assets and the costs of interest-bearing liabilities that generate taxable-equivalent net interest income.

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Schedule 3
DISTRIBUTION OF ASSETS, LIABILITIES, AND SHAREHOLDERS' EQUITY
AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Amounts in millions)	2012 Average balance	Amount of interest [1]	Average rate	2011 Average balance	Amount of interest [1]	Average rate
ASSETS						
Money market investments	$7,930	$21.1	0.27 %	$5,356	$13.8	0.26 %
Securities:						
Held-to-maturity	774	42.3	5.47	818	44.7	5.47
Available-for-sale	3,047	94.2	3.09	3,895	89.6	2.30
Trading account	24	0.7	3.13	58	2.0	3.45
Total securities	3,845	137.2	3.57	4,771	136.3	2.86
Loans held for sale	187	6.6	3.51	146	5.7	3.94
Loans [2]:						
Loans and leases	36,400	1,796.1	4.93	36,041	1,924.5	5.34
FDIC-supported loans	637	95.9	15.06	856	128.5	15.01
Total loans	37,037	1,892.0	5.11	36,897	2,053.0	5.56
Total interest-earning assets	48,999	2,056.9	4.20	47,170	2,208.8	4.68
Cash and due from banks	1,102			1,056		
Allowance for loan losses	(986)			(1,272)		
Goodwill	1,015			1,015		
Core deposit and other intangibles	60			78		
Other assets	3,089			3,363		
Total assets	$53,279			$51,410		
LIABILITIES						
Interest-bearing deposits:						
Saving and money market	$22,061	52.3	0.24	$21,476	84.8	0.39
Time	3,208	23.1	0.72	3,750	35.6	0.95
Foreign	1,493	4.7	0.31	1,515	8.1	0.53
Total interest-bearing deposits	26,762	80.1	0.30	26,741	128.5	0.48
Borrowed funds:						
Securities sold, not yet purchased	8	0.2	2.58	33	1.4	4.21
Federal funds purchased and security repurchase agreements	471	0.6	0.13	653	0.8	0.12
Other short-term borrowings	19	0.6	2.96	146	4.5	3.08
Long-term debt	2,235	225.2	10.08	1,913	297.2	15.54
Total borrowed funds	2,733	226.6	8.29	2,745	303.9	11.07
Total interest-bearing liabilities	29,495	306.7	1.04	29,486	432.4	1.47
Noninterest-bearing deposits	16,668			14,531		
Other liabilities	605			523		
Total liabilities	46,768			44,540		
Shareholders' equity:						
Preferred equity	1,768			2,257		
Common equity	4,745			4,614		
Controlling interest shareholders' equity	6,513			6,871		
Noncontrolling interests	(2)			(1)		

Total shareholders’ equity	6,511				6,870				
Total liabilities and shareholders’ equity	$53,279				$51,410				
Spread on average interest-bearing funds			3.16	%			3.21	%	
Taxable-equivalent net interest income and net yield on interest-earning assets		$1,750.2	3.57	%		$1,776.4	3.77	%	

[1] Taxable-equivalent rates used where applicable.

[2] Net of unearned income and fees, net of related costs. Loans include nonaccrual and restructured loans.

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2010			2009			2008		
Average balance	Amount of interest [1]	Average rate	Average balance	Amount of interest [1]	Average rate	Average balance	Amount of interest [1]	Average rate
$4,085	$11.0	0.27 %	$2,380	$7.9	0.33 %	$1,889	$47.8	2.53 %
866	44.3	5.12	1,263	66.9	5.29	1,516	101.3	6.68
3,416	91.5	2.68	3,313	104.2	3.14	3,266	162.1	4.97
61	2.2	3.64	75	2.7	3.65	43	1.9	4.41
4,343	138.0	3.18	4,651	173.8	3.73	4,825	265.3	5.50
187	8.9	4.78	226	11.0	4.88	182	10.1	5.52
37,116	2,056.1	5.54	40,511	2,269.7	5.60	40,835	2,660.9	6.52
1,210	114.4	9.46	1,058	64.4	6.09	—	—	
38,326	2,170.5	5.66	41,569	2,334.1	5.62	40,835	2,660.9	6.52
46,941	2,328.4	4.96	48,826	2,526.8	5.17	47,731	2,984.1	6.25
1,214			1,245			1,380		
(1,556)			(1,105)			(547)		
1,015			1,174			1,937		
101			125			137		
3,912			3,783			3,124		
$51,627			$54,048			$53,762		
$22,039	126.5	0.57	$22,548	238.0	1.06	$18,185	370.6	2.04
4,747	59.8	1.26	7,235	168.0	2.32	7,077	258.1	3.65
1,626	9.8	0.60	2,011	18.7	0.93	3,166	84.2	2.66
28,412	196.1	0.69	31,794	424.7	1.34	28,428	712.9	2.51
40	1.8	4.50	41	2.2	5.22	33	1.6	4.82
920	1.4	0.16	1,923	5.7	0.30	2,733	53.3	1.95
189	9.3	4.93	305	6.8	2.24	4,699	124.0	2.64
1,980	383.8	19.38	2,438	178.4	7.32	2,577	110.5	4.29
3,129	396.3	12.67	4,707	193.1	4.10	10,042	289.4	2.88
31,541	592.4	1.88	36,501	617.8	1.69	38,470	1,002.3	2.61
13,318			11,053			9,145		
576			558			578		
45,435			48,112			48,193		
1,732			1,558			432		
4,452			4,354			5,108		
6,184			5,912			5,540		
8			24			29		
6,192			5,936			5,569		

$51,627				$54,048				$53,762			
		3.08	%			3.48	%			3.64	%
	$1,736.0	3.70	%		$1,909.0	3.91	%		$1,981.8	4.15	%

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Schedule 4 analyzes the year-to-year changes in net interest income on a fully taxable-equivalent basis for the years indicated. For purposes of calculating the yields in these schedules, the average loan balances also include the principal amounts of nonaccrual and restructured loans. However, interest received on nonaccrual loans is included in income only to the extent that cash payments have been received and not applied to principal reductions. In addition, interest on restructured loans is generally accrued at reduced rates.

Schedule 4
ANALYSIS OF INTEREST CHANGES DUE TO VOLUME AND RATE

	2012 over 2011			2011 over 2010		
	Changes due to		Total	Changes due to		Total
(Amounts in millions)	Volume	Rate[1]	changes	Volume	Rate[1]	changes
INTEREST-EARNING ASSETS						
Money market investments	$6.7	$0.6	$7.3	$3.1	$(0.3)	$2.8
Securities:						
Held-to-maturity	(2.4)	—	(2.4)	(2.4)	2.8	0.4
Available-for-sale	(19.5)	24.1	4.6	11.0	(12.9)	(1.9)
Trading account	(1.1)	(0.2)	(1.3)	(0.1)	(0.1)	(0.2)
Total securities	(23.0)	23.9	0.9	8.5	(10.2)	(1.7)
Loans held for sale	1.5	(0.6)	0.9	(1.6)	(1.6)	(3.2)
Loans [2]:						
Loans and leases	19.3	(147.7)	(128.4)	(57.5)	(74.1)	(131.6)
FDIC-supported loans	(32.9)	0.3	(32.6)	(33.4)	47.5	14.1
Total loans	(13.6)	(147.4)	(161.0)	(90.9)	(26.6)	(117.5)
Total interest-earning assets	(28.4)	(123.5)	(151.9)	(80.9)	(38.7)	(119.6)
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Saving and money market	0.8	(33.3)	(32.5)	(1.2)	(40.5)	(41.7)
Time	(3.9)	(8.6)	(12.5)	(9.5)	(14.7)	(24.2)
Foreign	—	(3.4)	(3.4)	(0.5)	(1.2)	(1.7)
Total interest-bearing deposits	(3.1)	(45.3)	(48.4)	(11.2)	(56.4)	(67.6)
Borrowed funds:						
Securities sold, not yet purchased	(0.6)	(0.6)	(1.2)	(0.3)	(0.1)	(0.4)
Federal funds purchased and security repurchase agreements	(0.2)	—	(0.2)	(0.3)	(0.3)	(0.6)
Other short-term borrowings	(3.8)	(0.1)	(3.9)	(1.3)	(3.5)	(4.8)
Long-term debt	32.4	(104.4)	(72.0)	(10.5)	(76.1)	(86.6)
Total borrowed funds	27.8	(105.1)	(77.3)	(12.4)	(80.0)	(92.4)
Total interest-bearing liabilities	24.7	(150.4)	(125.7)	(23.6)	(136.4)	(160.0)
Change in taxable-equivalent net interest income	$(53.1)	$26.9	$(26.2)	$(57.3)	$97.7	$40.4

[1] Taxable-equivalent rates used where applicable.
[2] Net of unearned income and fees, net of related costs. Loans include nonaccrual and restructured loans.

In the analysis of interest changes due to volume and rate, changes due to the volume/rate variance are allocated to volume with the following exceptions: when volume and rate both increase, the variance is allocated proportionately to both volume and rate; when the rate increases and volume decreases, the variance is allocated to rate.

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 6 of the Notes to Consolidated Financial Statements and "Credit Risk Management" on page 64 for more information on how we determine the appropriate level for the ALLL and the RULC.

The provision for loan losses for 2012 was $14.2 million compared to $74.5 million and $852.7 million for 2011 and 2010, respectively. The Company continues to exercise caution with regard to the appropriate level of the allowance for loan losses, given the slow economic recovery. However, during the past 24 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 December 31, 2012, classified loans were $1.9 billion, compared to $2.3 billion and $3.7 billion at December 31, 2011 and December 31, 2010, respectively. Additionally, construction and land development loans declined to 5.1% of the loan portfolio at December 31, 2012 compared to 6.1% a year earlier.

Net loan and lease charge-offs declined to $155 million in 2012 from $456 million in 2011 and $983 million in 2010. In the fourth quarter of 2012, the annualized ratio of net loan and lease charge-offs to average loans declined to 0.20%, and is approaching prerecessionary levels. The ratio of net loan and lease charge-offs to average loans was 0.17% in 2007. However, net charge-offs were favorably impacted by a relatively high level of recoveries in 2012. Gross charge-offs for the fourth quarter of 2012 were $54.7 million, or 0.59% annualized of average loans. See "Nonperforming Assets" on page 73 and "Allowance and Reserve for Credit Losses" on page 76 for further details.

During 2012, the Company recorded a $4.4 million provision for unfunded lending commitments compared to reductions in the provision of $9.3 million in 2011 and $4.7 million in 2010. The increased provision for 2012 is primarily caused by a higher level of unfunded loan commitments, which outpaced improvements in credit quality. During 2011 and 2010, the credit quality of unfunded loans improved more rapidly than the increase in unfunded loan commitments, allowing the Company to release previously recorded reserves. 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 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 declines in balances of criticized and classified loans of most types, and continued low levels of 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 2012, noninterest income was $419.9 million compared to $498.2 million in 2011 and $453.6 million in 2010.

Schedule 5 presents a comparison of the major components of noninterest income for the past three years.

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Schedule 5
NONINTEREST INCOME

(Amounts in millions)	2012	Percent change	2011	Percent change	2010
Service charges and fees on deposit accounts	$176.4	1.1 %	$174.4	(12.7)%	$199.7
Other service charges, commissions and fees	174.4	(6.2)	185.9	4.2	178.4
Trust and wealth management income	28.4	6.4	26.7	(2.9)	27.5
Capital markets and foreign exchange	26.8	(14.6)	31.4	(16.5)	37.6
Dividends and other investment income	55.8	31.6	42.4	28.1	33.1
Loan sales and servicing income	40.0	42.3	28.1	(4.4)	29.4
Fair value and nonhedge derivative loss	(21.8)	(336.0)	(5.0)	68.4	(15.8)
Equity securities gains (losses), net	11.3	73.8	6.5	208.3	(6.0)
Fixed income securities gains, net	19.6	64.7	11.9	7.2	11.1
Impairment losses on investment securities:					
Impairment losses on investment securities	(166.3)	(115.1)	(77.3)	50.6	(156.5)
Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income)	62.2	42.7	43.6	(38.7)	71.1
Net impairment losses on investment securities	(104.1)	(208.9)	(33.7)	60.5	(85.4)
Gain on subordinated debt exchange	—	—	—	(100.0)	14.5
Other	13.1	(55.7)	29.6	0.3	29.5
Total	$419.9	(15.7)	$498.2	9.8	$453.6

Service charges and fees on deposit accounts remained stable in 2012 when compared to the prior year. In 2011, this revenue decreased by $25.3 million or 12.7% from 2010, primarily due to a decline in nonsufficient funds fees and a decrease in fees earned from business accounts.

Other service charges, commissions, and fees, which are comprised of ATM fees, insurance commissions, bankcard merchant fees, debit and credit card interchange fees, cash management fees, lending commitment fees, syndication and servicing fees, and other miscellaneous fees decreased by $11.5 million in 2012 from the prior year. Most of the decline can be attributed to decreased debit card interchange and ATM fees, partially offset by growth in credit card interchange fees and loan fees. See Note 1 of the Notes to the Consolidated Financial Statements for information regarding the reclassification of fees.

On June 29, 2011, the Federal Reserve voted to adopt regulations implementing the Durbin Amendment of The Dodd-Frank Act, which placed limits on debit card interchange fees charged by banks. The Durbin Amendment became effective in the fourth quarter of 2011 and resulted in a significant decrease in other service charges, commissions, and fees during 2012.

Other service charges, commissions, and fees increased $7.5 million in 2011 compared to 2010. Most of the increase can be attributed to increased credit card fees, loan fees and fees earned from other banks' customers using the Company's ATMs, partially offset by decreased debit card fees and remote deposit capture licensing fees. The Company sold substantially all of the assets of its NetDeposit subsidiary in the third quarter of 2010, and therefore did not earn any licensing fees in 2011.

Capital markets and foreign exchange includes trading income, public finance fees, foreign exchange income, and other capital market related fees. In 2012 these fees were $26.8 million compared to $31.4 million in the prior year. The decrease was primarily caused by lower income from trading fixed income corporate bonds and decreased foreign

exchange income, partially offset by higher fees from municipal bond transactions. In 2012, in anticipation of the adoption of the “Volcker Rule” of the Dodd-Frank Act, the Company discontinued the trading of corporate bonds.

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Capital markets and foreign exchange income was $31.4 million in 2011, compared to $37.6 million in 2010. The decrease was caused mainly by lower income from trading fixed income corporate bonds and a reduction in consulting fees related to municipal bond transactions.

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 and Federal Reserve Bank stock, and earnings from other equity investments including Federal Agricultural Mortgage Corporation and certain alternative venture investments. For 2012, this income increased by 31.6% from the prior year, mainly due to higher earnings from unconsolidated subsidiaries.

Dividends and other investment income increased by 28.1% in 2011 from $33.1 million in 2010. The increase was primarily caused by higher income from several unconsolidated affiliates, partially offset by decreased income from bank-owned life insurance contracts.

Loan sales and servicing income increased by $11.9 million in 2012 or 42.3% from the prior year. The increase is primarily due to larger gains from loan sales. Loan sales and servicing income remained fairly stable from 2010 to 2011.

Fair value and nonhedge derivative loss consists of the following:

Schedule 6
FAIR VALUE AND NONHEDGE DERIVATIVE LOSS

(Amounts in millions)	2012	Percent change	2011	Percent change	2010
Nonhedge derivative income	$(1.5)	(122.1)%	$6.8	(35.2)%	$10.5
Total return swap	(21.7)	(102.8)	(10.7)	53.1	(22.8)
Derivative fair value credit adjustments	1.4	227.3	(1.1)	68.6	(3.5)
Total	$(21.8)	336.0	$(5.0)	68.4	$(15.8)

Fair value and nonhedge derivative losses were $21.8 million in 2012, $5.0 million in 2011, and $15.8 million in 2010. The increased loss in 2012 is mainly due to higher fees related to the TRS agreement and a decrease in income from Eurodollar futures. TRS fees were lower in 2011 than in 2012 and 2010 due to the timing of expense recognition.

During 2012, the Company recorded $11.3 million in equity securities gains, compared to $6.5 million in 2011, and losses of $6.0 million in 2010. The gains recognized in 2012 were primarily attributable to SBIC investments. The gains realized in 2011 were principally due to the sale of BServ, Inc. stock, which the Company acquired in September 2010 when it sold the assets of its NetDeposit subsidiary. The loss incurred in 2010 was primarily the result of valuation losses related to venture fund investments.

The Company recorded $19.6 million of fixed income securities gains in 2012, compared to $11.9 million in 2011 and $11.1 million in 2010. Gains in 2012 and 2011 were primarily the result of cash principal payments received on CDOs that were originally purchased from Lockhart Funding and written down to fair value at the time of purchase. The gains in 2010 are mainly the result of the sale of certain auction rate securities which were previously written down to fair value but sold at par.

The Company recognized net impairment losses on CDO investment securities of $104.1 million in 2012, $33.7 million in 2011 and $85.4 million in 2010. See “Investment Securities Portfolio” on page 49 for additional information.

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During 2010, the Company exchanged $55.6 million of nonconvertible subordinated debt for 2,165,391 shares of common stock, resulting in a $14.5 million gain.

Other noninterest income for 2012 was $13.1 million, compared to $29.6 million in 2011. In 2011, the Company received payments from the FDIC related to certain acquired loans which had been determined to be covered by a loss sharing agreement. In 2010, other noninterest income was $29.5 million, which included a $13.7 million pretax gain recognized from the sale of substantially all of the assets of a wholly-owned subsidiary, NetDeposit.

Noninterest Expense

Noninterest expense decreased by 3.8% to $1,596.0 million in 2012 compared to 2011. During the past year, 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 and credit-related expenses. The improved credit quality contributed to lower FDIC premiums. Schedule 7 presents a comparison of the major components of noninterest expense for the past three years.

Schedule 7
NONINTEREST EXPENSE

(Amounts in millions)	2012	Percent change	2011	Percent change	2010
Salaries and employee benefits	$885.7	1.3 %	$874.3	5.9 %	$825.3
Occupancy, net	112.9	0.4	112.5	(1.0)	113.6
Furniture and equipment	109.0	3.1	105.7	4.5	101.1
Other real estate expense	19.7	(74.6)	77.6	(46.4)	144.8
Credit-related expense	50.5	(18.0)	61.6	(13.5)	71.2
Provision for unfunded lending commitments	4.4	147.3	(9.3)	(97.9)	(4.7)
Legal and professional services	52.5	34.6	39.0	(1.3)	39.5
Advertising	25.7	(5.5)	27.2	9.7	24.8
FDIC premiums	43.4	(32.1)	63.9	(37.4)	102.0
Amortization of core deposit and other intangibles	17.0	(15.4)	20.1	(21.2)	25.5
Other	275.2	(3.8)	286.0	3.9	275.2
Total	$1,596.0	(3.8)	$1,658.6	(3.5)	$1,718.3

Salaries and employee benefits increased by 1.3% during 2012 compared to 5.9% in 2011. Salary expense for 2012 included share-based compensation expense of $31.5 million. Bonus and incentive expenses were lower in 2012 than in 2011 because certain long-term incentive compensation plans are no longer expected to pay out, or to pay out at a reduced amount. Additionally, the Company’s workforce declined by 2.2% during 2012.

Salary and bonus expense increased in 2011 by 3.4% from 2010. Most of the increase during 2011 was due to higher base salary and bonus expenses, which resulted from hiring additional staff necessary to meet new regulatory reporting requirements and from the Company’s improved financial performance. Salary expense for 2011 included share-based compensation expense of approximately $29.0 million. Retirement expense and the cost of employee health and other insurance benefits also increased, mainly due to higher retirement related accruals.

Salaries and employee benefits are shown in greater detail in Schedule 8.

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Schedule 8
SALARIES AND EMPLOYEE BENEFITS

(Dollar amounts in millions)	2012	Percent change	2011	Percent change	2010
Salaries and bonuses	$745.7	1.6 %	$733.7	3.4 %	$709.5
Employee benefits:					
Employee health and insurance	48.6	(1.0)	49.1	13.9	43.1
Retirement	40.8	(4.0)	42.5	58.0	26.9
Payroll taxes and other	50.6	3.3	49.0	7.0	45.8
Total benefits	140.0	(0.4)	140.6	21.4	115.8
Total salaries and employee benefits	$885.7	1.3	$874.3	5.9	$825.3
Full-time equivalent (“FTE”) employees at December 31	10,368	(2.2)	10,606	0.8	10,524

Other real estate expense decreased in 2012 by 74.6% from the prior year. The decrease is primarily due to a 35.9% reduction in OREO balances during the last 12 months, which resulted in reduced holding expenses, as well as lower write-downs of collateral carrying values.

Other real estate expense decreased by 46.4% in 2011 compared to 2010. The decrease is primarily driven by a 48.9% reduction in OREO balances between these two years, lower write-downs of OREO values during work-out, as well as larger net gains from OREO property sales.

Credit related expense includes costs incurred during the foreclosure process prior to the Company obtaining title to collateral and recording an asset in OREO, as well as other out-of-pocket costs related to the management of problem loans and other assets. Credit related expense was $50.5 million in 2012 compared to $61.6 million in 2011. The decrease is primarily attributable to lower property tax and legal costs incurred during work-out. In 2011 credit related expenses were 13.5% lower than in 2010, mainly due to a reduction in collection and foreclosure costs.

Legal and professional services were $13.5 million higher in 2012 than in the previous year. The increase is mostly due to regulatory, legal, and contractual matters. Legal and professional services remained practically unchanged from 2010 to 2011.

FDIC premiums decreased by 32.1% during 2012, following a 37.4% decrease in the prior year. These decreases resulted from the combination of a change in the premium assessment formulas prescribed by the FDIC and improved risk factors employed in those formulas.

Other noninterest expense decreased by $10.8 million in 2012 from the previous year. The decline is primarily the result of lower write-downs of the FDIC indemnification asset attributable to loans purchased from the FDIC in 2009. FDIC-supported loans continued to perform better than expected, including pay-offs and pay-downs. The balance of the FDIC indemnification asset continues to decline although at a slower rate compared to prior years. Other noninterest expense in 2012 included a $1.0 million goodwill impairment.

Other noninterest expense for 2011 increased by 3.9% compared to 2010, primarily as a result of an increased 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 balance of the FDIC indemnification asset declined.

Impairment Loss on Goodwill

The Company performed a goodwill impairment analysis in the fourth quarter of 2012, and recorded a $1.0 million goodwill impairment loss at The Commerce Bank of Oregon. This goodwill originally arose from the Company's acquisition of a bank in order to operate a bank in Oregon. In 2012, Oregon law was changed to no longer require

the purchase of an existing bank by a bank holding company seeking to enter that state. No goodwill impairment loss was incurred in 2011 or 2010. See Note 9 of the Notes to Consolidated Financial Statements and "Accounting for Goodwill" on page 30 for additional information.

Foreign Operations

Zions Bank and Amegy operate branches in Grand Cayman, Grand Cayman Islands, B.W.I. The foreign branches only accept deposits from qualified domestic customers. While deposits in these branches are not subject to FRB reserve requirements, there are no federal or state income tax benefits to the Company or any customers as a result of these operations.

Foreign deposits at December 31, 2012 and 2011 were $1.8 billion and $1.6 billion, respectively, and averaged $1.5 billion for both 2012 and 2011. Foreign deposits are related to domestic customers of our subsidiary banks.

Income Taxes

The Company's income tax expense was $193.4 million for 2012 compared to $198.6 million for 2011 and an income tax benefit of $106.8 million for 2010. The Company's effective income tax rates, including the effects of noncontrolling interests, were 35.6% in 2012, 38.0% in 2011, and 26.7% in 2010. The tax expense rates for 2012 and 2011 were reduced by nontaxable municipal interest income and nontaxable income from certain bank-owned life insurance. These rate reductions were mostly offset by the nondeductibility of a portion of the accelerated discount amortization from the conversion of subordinated debt to preferred stock during both years. However, in 2011, the amount of the nondeductible amortization from conversions of subordinated debt to preferred stock was significantly higher than the amount in 2012, increasing the tax rate for 2011.

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 provided an income tax benefit of $1.2 million in 2012, $2.4 million in 2011, and $6.0 million in 2010.

The Company had a net DTA balance of approximately $406 million at December 31, 2012, compared to $509 million at December 31, 2011. The decrease in the net DTA resulted primarily from items related to nonaccruing loans, fair value adjustments on securities, NOL utilization, and OREO. The net decrease in DTA was offset by a 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. The Company did not record any additional valuation allowance for GAAP purposes as of December 31, 2012. See Note 14 of the Notes to Consolidated Financial Statements and "Critical Accounting Policies and Significant Estimates" on page 27 for additional information.

BUSINESS SEGMENT RESULTS

The Company manages its banking operations and prepares management reports with a primary focus on its subsidiary banks and the geographies in which they operate. As discussed in the "Executive Summary" on page 22, most of the lending and other decisions affecting customers are made at the local level. Each subsidiary bank holds its own banking charter. Those with national bank charters (Zions Bank, Amegy, NBA, Vectra, and TCBW) are subject to regulatory oversight by the OCC. Those with state charters (CB&T, NSB, and TCBO) are regulated by the FDIC and applicable state authorities. The operating segment identified as "Other" includes the Parent, Zions Management Services Company, certain nonbank financial service subsidiaries, TCBO, and eliminations of transactions between segments.

The accounting policies of the individual segments are the same as those of the Company. The Company allocates the cost of centrally provided services to the business segments based upon estimated or actual usage of those

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services. Note 21 of the Notes to Consolidated Financial Statements contains selected information from the respective balance sheets and statements of income for all segments.

During 2012, the Company's banking subsidiaries experienced improved financial performance. Common areas of financial performance experienced at various levels of the segments include:

- improved levels of profitability;
- declining credit-related costs including reduced provisions for loan losses;
- slow recovering loan growth; and
- high levels of deposit growth invested in low-yielding cash-equivalent assets.

Schedule 9
SELECTED SEGMENT INFORMATION

(Dollar amounts in millions)	Zions Bank 2012	2011	2010	CB&T 2012	2011	2010	Amegy 2012	2011	2010
KEY FINANCIAL INFORMATION									
Total assets	$17,930	$17,531	$16,157	$11,069	$10,894	$10,766	$13,119	$12,282	$11,406
Total deposits	15,575	14,905	13,631	9,483	9,192	9,219	10,706	9,731	8,906
Net income (loss)	189.3	150.5	(48.3)	127.1	134.4	58.8	166.7	161.6	58.6
Net interest margin	4.04%	4.53%	4.29%	4.71%	5.17%	5.02%	3.44%	3.95%	4.02%
RISK-BASED CAPITAL RATIOS									
Tier 1 leverage	10.58%	11.59%	10.43%	10.37%	10.96%	9.94%	12.03%	14.41%	13.84%
Tier 1 risk-based capital	12.96%	13.37%	11.66%	12.92%	13.81%	12.40%	13.91%	15.99%	15.60%
Total risk-based capital	14.17%	14.61%	12.88%	14.18%	15.08%	13.68%	15.17%	17.26%	16.89%
CREDIT QUALITY									
Provision for loan losses	$88.3	$128.3	$350.6	$(7.9)	$(9.5)	$149.9	$(63.9)	$(37.4)	$119.3
Net loan and lease charge-offs	74.4	179.5	321.8	19.8	53.9	152.0	4.6	71.4	157.9
Ratio of net charge-offs to average loans and leases	0.60%	1.41%	2.39%	0.24%	0.65%	1.77%	0.06%	0.91%	2.00%
Allowance for loan losses	$350	$336	$388	$146	$186	$258	$164	$233	$342
Ratio of allowance for loan losses to net loans and leases, at year-end	2.80%	2.64%	3.01%	1.77%	2.22%	3.05%	1.94%	2.89%	4.52%
	$259.0	$287.6	$563.0	$150.7	$200.2	$273.6	$138.8	$248.4	$409.2

Nonperforming lending-related assets									
Ratio of nonperforming lending-related assets to net loans and leases and other real estate owned	2.05 %	2.23 %	4.31 %	1.82 %	2.37 %	3.22 %	1.63 %	3.07 %	5.34 %
Accruing loans past due 90 days or more	$2.6	$5.1	$8.9	$54.2	$79.7	$123.3	$3.4	$4.8	$7.8
Ratio of accruing loan past due 90 days or more to net loans and leases	0.02 %	0.04 %	0.07 %	0.66 %	0.95 %	1.46 %	0.04 %	0.06 %	0.10 %

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(Dollar amounts in millions)	NBA			NSB			Vectra			TCBW		
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
KEY FINANCIAL INFORMATION												
Total assets	$4,575	$4,485	$4,397	$4,061	$4,100	$4,017	$2,511	$2,341	$2,299	$961	$874	$850
Total deposits	3,874	3,731	3,696	3,604	3,546	3,424	2,164	2,004	1,923	791	693	662
Net income (loss)	30.9	25.5	(7.9)	21.8	46.6	(70.3)	18.9	(10.1)	6.6	7.9	2.7	(0.5
Net interest margin	4.00%	4.14%	4.30%	3.19%	3.41%	3.60%	4.82%	4.92%	5.02%	3.25%	3.52%	3.76
RISK-BASED CAPITAL RATIOS												
Tier 1 leverage	12.12%	13.65%	12.71%	10.30%	11.70%	12.66%	11.52%	11.01%	12.05%	9.39%	10.10%	10.62
Tier 1 risk-based capital	14.53%	17.71%	16.90%	18.94%	21.58%	21.12%	12.32%	12.52%	12.55%	12.30%	13.63%	12.90
Total risk-based capital	15.79%	18.98%	18.19%	20.22%	22.89%	22.48%	13.58%	13.79%	13.83%	13.56%	14.90%	14.16
CREDIT QUALITY												
Provision for loan losses	$(0.6)	$9.6	$53.4	$(9.6)	$(38.3)	$133.3	$7.0	$14.0	$28.2	$0.4	$7.8	$17.4
Net loan and lease charge-offs	14.0	54.4	111.8	29.8	55.1	190.5	9.1	32.5	32.3	2.7	9.0	15.7
Ratio of net charge-offs to average loans and leases	0.41%	1.66%	3.33%	1.38%	2.32%	7.48%	0.45%	1.77%	1.72%	0.48%	1.55%	2.72
Allowance for loan losses	$83	$98	$143	$90	$132	$226	$49	$51	$70	$12	$14	$15
Ratio of allowance for loan losses to net loans and leases, at year-end	2.31%	2.96%	4.36%	4.30%	5.89%	9.42%	2.30%	2.67%	3.84%	2.06%	2.49%	2.65
Nonperforming lending-related assets	$70.9	$130.1	$209.9	$73.1	$114.7	$250.6	$42.3	$70.7	$100.3	$10.7	$12.0	$20.9
Ratio of nonperforming lending-related assets to net	1.94%	3.89%	6.22%	3.47%	5.07%	10.31%	1.93%	3.61%	5.44%	1.88%	2.12%	3.64

loans and leases and other real estate owned												
Accruing loans past due 90 days or more	$0.6	$3.9	$1.6	$0.9	$0.1	$0.2	$—	$0.1	$0.2	$—	$—	$—
Ratio of accruing loans past due 90 days or more to net loans and leases	0.02 %	0.12 %	0.05 %	0.04 %	0.01 %	0.01 %	— %	— %	0.01 %	— %	— %	— %

The above amounts do not include intercompany eliminations.

Zions First National Bank

Zions Bank is headquartered in Salt Lake City, Utah and is primarily responsible for conducting the Company’s operations in Utah and Idaho. Zions Bank is the 2nd largest full-service commercial bank in Utah and the 3rd largest in Idaho, as measured by domestic deposits in these states. Zions Bank conducts the largest portion of the Company’s Capital Markets operations, which include Zions Direct, Inc., fixed income securities trading, correspondent banking, public finance, trust and investment advisory services, and Western National Trust Company.

The net interest margin decreased to 4.04% in 2012 from 4.53% in 2011. Nonperforming lending-related assets decreased 9.9% from the prior year due to extensive efforts to work out problem loans and to sell OREO properties. Additionally, the higher credit quality of loans originated since the beginning of the financial crisis also contributed to the improved credit quality of the portfolio.

The loan portfolio decreased by $261 million during 2012, which included a $73 million decrease in CRE loans, a $24 million decrease in consumer loans, and a $164 million decrease in commercial loans. The decline in commercial loans was the result of a reduction in the National Real Estate owner occupied loan portfolio. Accruing loans past due 90 days or more at December 31, 2012 decreased to $3 million from $5 million a year earlier. Total deposits at December 31, 2012 were 4.5% higher than at December 31, 2011.

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California Bank & Trust

California Bank & Trust is the 14th largest full-service commercial bank in California as measured by domestic deposits. Its core business is built on relationship banking by providing commercial, real estate and consumer lending, depository services, international banking, cash management, and community development services.

CB&T's profitability during 2012 and 2011 was favorably impacted by the better-than-expected performance of FDIC-supported loans. In 2012, CB&T was able to significantly reduce its nonperforming lending-related assets, which declined 24.5% from the prior year. Total deposits increased 3.2% from December 31, 2011.

Excluding the impact of FDIC-supported loans, CB&T's loan portfolio increased in 2012 by $78 million from the prior year. In 2012, consumer loans increased $16 million and CRE loans increased $74 million, offset by a $12 million decrease in commercial lending. FDIC-supported loans declined by $211 million in 2012. The balance of FDIC-supported loans continues to decline over time as the portfolio matures, and no additional loans have been purchased since the 2009 acquisitions. The credit quality of CB&T's loan portfolio improved during 2012, resulting in a 63.3% reduction in net loan and lease charge-offs.

Amegy Corporation

Amegy is headquartered in Houston, Texas and operates Amegy Bank, Amegy Mortgage Company, Amegy Investments, and Amegy Insurance Agency. Amegy Bank is the 9th largest full-service commercial bank in Texas as measured by domestic deposits in the state.

Over the past three years, Amegy has been able to maintain increased profitability over each year even with constant net interest margin compression during this same time frame. Nonperforming lending-related assets decreased by 44.1% from the prior year. Total deposits increased 10.0% from 2011, driven by higher balances in business customers' accounts. During 2012, Amegy's loan portfolio increased by $419 million. Commercial loans grew by $376 million and consumer loans increased by $222 million, offset by a $179 million decrease in CRE loans.

National Bank of Arizona

National Bank of Arizona is the 4th largest full-service commercial bank in Arizona as measured by domestic deposits in the state.

NBA had net income of $30.9 million in 2012, a $5.4 million or 21.2% increase from 2011. Nonperforming lending-related assets decreased by 45.5% from the prior year. During 2012, the loan portfolio increased by $300 million in all lending product segments, including $114 million in commercial lending, $144 million in commercial real estate, and $42 million in consumer loans. Total deposits increased 3.8% over the prior year.

Nevada State Bank

Nevada State Bank is the 4th largest full-service commercial bank in Nevada as measured by domestic deposits in the state. NSB focuses on serving small and mid-sized businesses as well as retail consumers, with an emphasis in relationship banking.

The markets in which NSB operates are dependent on tourism and construction, and were severely impacted by the recent recession. At December 31, 2012, Nevada's unemployment rate was the highest in the nation, and its housing market continued to suffer from a high rate of foreclosures. In 2012, NSB had net income of $21.8 million compared to $46.6 million in 2011. Net loan and lease charge-offs declined 45.9% from 2011, and nonperforming lending-related assets declined 36.3%. Deposits increased 1.6% and the net interest margin decreased 22 bps from the prior year.

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During 2012, NSB's commercial lending and commercial real estate portfolios declined by $101 million and $68 million, respectively, partially offset by a $45 million increase in consumer loans.

Vectra Bank Colorado

Vectra Bank Colorado, N.A. is the 7th largest full-service commercial bank in Colorado as measured by domestic deposits in the state.

Vectra's net interest margin was 4.82% in 2012 compared to 4.92% in 2011. Total loans increased $214 million during 2012, including increases of $140 million in consumer loans and $126 million in commercial lending, partially offset by a decrease of $52 million in commercial real estate loans. Nonperforming lending-related assets decreased 40.2% from the prior year. Total deposits at December 31, 2012 were 8.0% higher than a year earlier.

The Commerce Bank of Washington

The Commerce Bank of Washington is headquartered in Seattle, Washington, and operates out of a single office located in the Seattle central business district. Its business strategy focuses on serving the financial needs of commercial businesses, including professional services firms. TCBW has been successful in serving the greater Seattle/Puget Sound region without requiring extensive investments in a traditional branch network. It has been innovative in effectively utilizing couriers, bank by mail, remote deposit image capture, and other technologies.

TCBW had net income of $7.9 million in 2012 compared to $2.7 million in 2011. Nonperforming lending-related assets decreased 10.8% from the prior year. The commercial lending portfolio increased by $2 million and commercial real estate loans increased by $8 million; however, consumer loans decreased by $1 million. Total deposits were 14.1% higher at December 31, 2012 than a year earlier.

Other Segment

Operating components in the "Other" segment, as shown in Notes 21 and 23 of the Notes to Consolidated Financial Statements, relate primarily to the Parent, ZMSC and eliminations of transactions between segments. The major components at the Parent include net interest income, which includes interest expense on other borrowed funds, and net impairment losses on investment securities.

Significant changes in 2012 compared to 2011 include (1) a $75.6 million improvement in net interest income primarily related to lower interest expense resulting from reduced accelerated discount amortization on convertible subordinated debt, as discussed in "Net Interest Income, Margin and Interest Rate Spreads" on page 34, and (2) a $68.2 million increase in net impairment losses on investment securities, as discussed in "Investment Securities Portfolio" on page 49. Significant changes in 2011 compared to 2010 include a $73.3 million improvement in net interest income related to reduced accelerated discount amortization, and a $51.3 million reduction in net impairment losses on investment securities.

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, and loans, and leases. Schedule 3, which we referred to in our discussion of net interest income, includes the average balances of the Company's interest earning assets, the amount of revenue generated by them, and their respective yields. Another goal 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 moderate loan demand experienced in recent quarters has made it difficult to

consistently achieve these goals.

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Average interest-earning assets were $49.0 billion in 2012 compared to $47.2 billion in the previous year. Average interest-earning assets as a percentage of total average assets were 92.0% in 2012 and 91.8% in 2011.

Average loans, including FDIC-supported loans, were $37.0 billion and $36.9 billion in 2012 and 2011, respectively. Average loans as a percentage of total average assets in 2012 was 69.5% compared to 71.8% in the previous year.

Average money market investments, consisting of interest-bearing deposits, federal funds sold and security resell agreements, increased by 48.1% to $7.9 billion in 2012 compared to $5.4 billion in 2011. Average securities decreased by 19.4% from 2011. Average total deposits increased by 5.2% while average total loans increased by 0.4% for 2012 when compared to the prior year. Increased deposits combined with moderate loan growth resulted in higher balances of excess cash available for money market investments.

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. Schedule 10 presents a profile of the Company’s investment securities portfolio. The amortized cost amounts represent the Company’s original cost of the investments, adjusted for related accumulated amortization or accretion of any yield adjustments, and for credit impairment losses. The estimated fair value measurement levels and methodology are discussed in detail in Note 20 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, 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. Pursuant to these rules, during 2012 the Company began relying on its internal credit quality methodology to determine credit quality grading for investment securities held by the subsidiary banks, which had the effect of improving the credit quality grades on some of the securities.

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Schedule 10
INVESTMENT SECURITIES PORTFOLIO

(In millions)	December 31, 2012 Amortized cost	Carrying value	Estimated fair value	December 31, 2011 Amortized cost	Carrying value	Estimated fair value
Held-to-maturity						
Municipal securities	$525	$525	$537	$565	$565	$572
Asset-backed securities:						
Trust preferred securities – banks and insurance	255	213	126	263	222	144
Other	22	19	12	24	21	14
	802	757	675	852	808	730
Available-for-sale						
U.S. Treasury securities	104	105	105	4	5	5
U.S. Government agencies and corporations:						
Agency securities	109	113	113	153	158	158
Agency guaranteed mortgage-backed securities	407	425	425	535	553	553
Small Business Administration loan-backed securities	1,124	1,153	1,153	1,153	1,161	1,161
Municipal securities	75	76	76	121	122	122
Asset-backed securities:						
Trust preferred securities – banks and insurance	1,596	949	949	1,794	930	930
Trust preferred securities – real estate investment trusts	41	16	16	40	19	19
Auction rate securities	7	7	7	71	70	70
Other	26	19	19	65	50	50
	3,489	2,863	2,863	3,936	3,068	3,068
Mutual funds and other	228	228	228	163	163	163
	3,717	3,091	3,091	4,099	3,231	3,231
Total	$4,519	$3,848	$3,766	$4,951	$4,039	$3,961

The amortized cost of investment securities on December 31, 2012 decreased by 8.7% from the balances on December 31, 2011, primarily due to reductions in agency guaranteed mortgage-backed securities, reductions and impairment of asset-backed securities, partially offset by increased investments in U.S. Treasury securities, and mutual funds and other securities.

The amortized cost of investment securities at December 31, 2011 decreased by 14.8% from the previous year. This was primarily due to the sale of U.S. Treasury securities and reductions in asset-backed securities, partially offset by increased investments in SBA loan-backed securities.

As of December 31, 2012, 10.4% of the $3.1 billion fair value of available-for-sale ("AFS") securities portfolio was valued at Level 1, 57.1% was valued at Level 2, and 32.5% 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 AFS securities portfolio was valued at Level 1, 61.6% was valued at Level 2, and 33.4% was valued at Level 3. See Note 20 of the Notes to Consolidated Financial Statements for further discussion of fair value accounting.

The amortized cost of AFS investment securities valued at Level 3 was $1,684 million at December 31, 2012 and the fair value of these securities was $1,004 million. The securities valued at Level 3 were comprised of ABS CDOs,

primarily bank and insurance company trust preferred CDOs, and municipal securities. For these Level 3 securities, net pretax unrealized loss recognized in OCI at December 31, 2012 was $680 million. As of December 31, 2012, we believe that we will receive on settlement or maturity at least the amortized cost amounts of the Level 3 AFS securities. This expectation applies to both those securities for which OTTI has been recognized and those for which no OTTI has been recognized.

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Schedule 11 presents the Company's CDOs according to performing tranches without credit impairment, and nonperforming tranches. These CDOs are the majority of our asset-backed securities and consist of both HTM and AFS securities.

Schedule 11
CDOs BY PERFORMANCE STATUS

(Amounts in millions)	December 31, 2012						% of carrying value to par		
	No. of tranches	Par amount	Amortized cost	Carrying value	Net unrealized losses recognized in AOCI [1]	Weighted average discount rate [2]	December 31,		
							2012	2011	Change
Performing CDOs									
Predominantly bank CDOs	28	$811	$727	$538	$(189)	7.8 %	66 %	64 %	2 %
Insurance-only CDOs	22	454	449	327	(122)	8.6	72	79	(7)
Other CDOs	6	54	43	38	(5)	9.4	70	76	(6)
Total performing CDOs	56	1,319	1,219	903	(316)	8.1	68	69	(1)
Nonperforming CDOs [3]									
CDOs credit impaired prior to last 12 months	18	369	251	109	(142)	10.7	30	18	12
CDOs credit impaired during last 12 months	39	732	441	181	(260)	9.6	25	12	13
Total nonperforming CDOs	57	1,101	692	290	(402)	10.0	26	16	10
Total CDOs	113	$2,420	$1,911	$1,193	$(718)	9.0	49	47	2

(Amounts in millions)	December 31, 2011						
	No. of tranches	Par amount	Amortized cost	Carrying value	Net unrealized losses recognized in AOCI [1]	Weighted average discount rate [2]	% of carrying value to par
Performing CDOs							
Predominantly bank CDOs	32	$956	$846	$615	$(231)	7.1%	64%
Insurance-only CDOs	21	455	449	359	(90)	5.8	79
Other CDOs	7	86	74	65	(9)	6.9	76
Total performing CDOs	60	1,497	1,369	1,039	(330)	6.7	69
Nonperforming CDOs [3]							
Deferring interest, but no credit impairment	3	72	72	17	(55)	15.2	24
Credit impairment prior to last 12 months	37	676	498	120	(378)	15.3	18
	18	365	217	43	(174)	16.2	12

Credit impairment during last 12 months							
Total nonperforming CDOs	58	1,113	787	180	(607)	15.6	16
Total CDOs	118	$2,610	$2,156	$1,219	$(937)	10.5	47

[1] Accumulated other comprehensive income, amounts presented are pretax.
[2] Margin over related LIBOR index.
[3] Defined as either deferring current interest ("PIKing") or OTTI; the majority are predominantly bank CDOs.

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As shown in Schedule 12, the Company had 36 of its CDO securities, representing 42.4% of the CDO portfolio's fair value at December 31, 2012, that were upgraded by one or more NRSROs during the previous 12 months. These upgrades were attributed to improvements in over-collateralization ratios and deleveraging combined with less severe rating agency assumptions and methodology.

Schedule 12

BANK AND INSURANCE TRUST PREFERRED CDOs

	December 31, 2012			
(In millions)	No. of securities	Par amount	Amortized cost	Fair value
Year-to-date rating changes [1]				
Upgrade	36	$994	$898	$448
No change	61	1,227	881	501
Downgrade	5	69	48	106
	102	$2,290	$1,827	$1,055

[1] By any NRSRO

Significant Assumption Changes for 2012

Probability of Default of Deferring Bank Holding Company Trust Preferred Collateral

Historically, our ratio-based valuation model assessed both performing and deferring issuers. Ratios predictive of bank failure were used in our model to identify the PD of bank holding company issuers of trust preferred securities. The reduction of the weighted average assumed loss rate on deferring collateral from 2009 onward was due to a combination of factors. These included the increased predictive ability of the model during that period in identifying which holding companies would have its sole bank or primary bank closed by regulators and which did not appear to be in danger of closure. Bank closures were largely the driver of bank holding company defaults on trust preferred securities during the 2009 to late 2012 period. As the highest PD institutions defaulted, and relatively stronger new deferrals were added, the averages declined. For more information about the ratio-based model, please refer to Note 20 of the Notes to Consolidated Financial Statements.

Effective in the fourth quarter of 2012, we developed and began using an additional probability of default overlay model for deferring bank trust preferred issuers. We utilized the higher of the PDs from the ratio-based model and the PD overlay model, thus increasing the PD of deferring issuers. The majority of these deferring issuers face a reperformance-or-default deadline within the next two and a half years. Increased regulatory and restructuring risk as evidenced by several fourth quarter 2012 events and developments led to our modeling change.

Prior to the fourth quarter of 2012, we had observed only a few bankruptcies of holding company issuers of trust preferred securities. These were generally confined to the weakest institutions. Thus we assumed no recovery.

In the fourth quarter of 2012, several regulatory and restructuring events were observed that negatively affected our assessment of current conditions for those issuers still in deferral and our forecast for these deferrals:

1) We observed the first Section 363 bankruptcy of a bank holding company whose bank did not appear to be in danger of regulatory closure. While the bank had a 2.18% modeled PD, the effective loss will be all of the back interest or approximately 8% of the par amount. In this case, the relative strength of the bank did not bring a sale price for the bank stock held by the holding company sufficient to fully pay off the trust preferred security issued by the holding company.

2) We observed the uncertainty of recovery amounts for trust preferred securities issued by bank holding companies when those holding companies file Section 363 bankruptcies. The extent to which a recovery is achieved for the trust preferred security is highly dependent on multiple factors, including the active

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participation by CDO trustees under the direction of collateral managers or noteholders. We cannot assume that high levels of participation will be achieved in every future case.

3) We observed what appeared to be the first instance of regulatory involvement in support of a bank holding company bankruptcy.

4) We observed bank holding companies starting into the last year of the allowable five-year deferral period with a well capitalized and in some cases also a profitable bank and several years of improved financial performance and related ratios. In particular, we observed maintenance of regulatory orders precluding, or requiring permission for, holding companies bringing deferred payments current and subsidiary banks making dividend payments to the holding company which, if left in place, will trigger default of the trust preferred securities issued by the holding company and collateralizing the CDOs. After discussion with regulators, we are unable to rule out the possibility that such regulatory orders may cause default.

5) We observed a collateral manager for a CDO allowing the restructuring of a holding company trust preferred security from an issuer with a relatively strong underlying bank such that the loss exceeded our modeled PD.

The issuers with the earliest deferrals to which we are exposed will face the end of the allowable deferral period starting in 2013. Our fourth quarter 2012 experiences and observations led us to identify greater than previously assessed risk to the collectability of deferring bank holding company issuers, even when the underlying bank is not at risk of regulatory closure. Events seen in the fourth quarter of 2012 indicated that our previous assumption that a well capitalized and profitable bank has a low probability of its bank holding company defaulting should be supplemented with additional analysis. Said differently, the subsidiary of a deferring bank holding company may be in an apparently reasonable financial condition, but because cash may be trapped at the subsidiary due to regulatory constraints, the bank holding company may simply be unable to bring the trust preferred obligation current once its five-year deferral period is up. Alternatively, debt restructurings approved by a CDO collateral manager and Section 363 bankruptcies approved by relevant courts may result in losses greater than our previously modeled probabilities of default.

The addition of the “deferral PD overlay model” to our historic ratio-based PD model in the fourth quarter of 2012, addresses these risks by sorting remaining deferrals within our CDO pools into four “buckets” based on four factors indicative of bank holding company strength at the start of their deferral period. We then assume that the historical failure rate we have observed within our CDO pool for collateral in each bucket will be the future default rate of current deferrals in each bucket. Where the overlay PD of a deferral is higher than the PD identified by our traditional ratio-based PD model, we use the higher overlay PD. We expect to recalibrate the expected default curve for each bucket periodically as the outcome for more deferring issuers becomes known over time.

Adoption and utilization of the PD overlay model for deferrals effective December 31, 2012 raised our weighted average loss assumption on deferring collateral from 20% under our base model to 49% under the overlay model. The assumption change generated $50.4 million pretax of OTTI.

Assumption Changes Regarding Prepayment Rate

In the fourth quarter of 2012, the Company increased the prepayment assumptions for small banks because of the extent of observed prepayments made by these types of banks. The prepayment rate assumption for small banks was increased from 3% per year for each year to 10% per year for three years and 3% thereafter. The Company expects a few years of this higher prepayment rate as regulatory and economic driven capital restructuring and industry consolidation continues in the near term, a period we estimate will continue through 2015. This produced $2.4 million of OTTI by itself and another $30.7 million of OTTI in combination with PD increases on deferring issuers described previously. We changed this assumption because our CDO pools experienced significant and increasing prepayments

of small bank trust preferred securities during the latter part of 2012. We define “small banks” as collateral that is not subject to the phased-in disallowance of bank trust preferred securities as Tier 1 Capital

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required by the Dodd-Frank Act, the majority of which would be subject to a more lengthy phased-in disallowance under capital rules proposed by the Federal Reserve and other banking regulators. These are primarily banks with assets below $15 billion.

Since the third quarter of 2010, we have assumed that large banks with investment grade ratings will fully prepay by the end of 2015. The Dodd-Frank Act became effective during the third quarter of 2010, and it phases in the disallowance of the inclusion of trust preferred securities in Tier 1 capital for banks with assets over $15 billion ("large banks"). For those institutions within each pool with investment grade ratings, we assume that trust preferred securities will be called prior to the end of the disallowance period. The pace of these large bank prepayments to date have been consistent with our assumption with just over 40% of large banks having prepaid within our pools by year end 2012.

Given the 10% small bank prepayment rate assumption until the end of 2015 and 3% thereafter and the differing extent of large banks remaining in CDO pools, the pool specific prepayment rate until the end of 2015 is 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. After 2015 each pool is assumed to prepay at a 3% annual rate.

For the fourth quarter of 2012, the resulting average annual prepayment rate assumption for pools, which includes both large and small banks, is 14% for each year through 2015, followed by an annual prepayment rate assumption of 3% thereafter. For pools without large banks, we assume a 10% annual prepayment rate for each year through 2015 and 3% thereafter. Increased prepayment rates are generally favorable for the fair value of the most senior tranches and adverse to the fair value of the more junior tranches.

Schedule 13
EFFECT OF BANK AND INSURANCE CDO ASSUMPTION CHANGES ON OTTI AND FAIR VALUES

	Bank and insurance CDOs at Level 3	
(In millions)	Held-to-maturity	Available-for-sale
OTTI		
Old assumptions	$(0.2)	$—
Old assumptions with:		
PD overlay	(4.5)	(46.2)
Increased prepayment	(1.1)	(1.6)
New assumptions		
PD overlay and increased prepayment	(6.4)	(77.4)
Effect of new assumptions on OTTI	(6.2)	(77.4)
Fair value		
Old assumptions	123	884
Old assumptions with:		
PD overlay	122	857
Increased prepayment	125	930
PD overlay and increased prepayment	123	901
New assumptions		
PD overlay, increased prepayment and fourth quarter 2012 discount rate	126	925
Effect of new assumptions on fair value	3	41

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Valuation Sensitivity of Level 3 Bank and Insurance CDOs

Schedule 14 sets forth the sensitivity of the current internally modeled CDOs' fair values to changes in the most significant assumptions utilized in the model.

Schedule 14

SENSITIVITY OF INTERNAL MODEL

(Amounts in millions)		Held-to-maturity		Available-for-sale	
Fair value at December 31, 2012		$126		$925	
		Incremental	Cumulative	Incremental	Cumulative
Currently Modeled Assumptions					
Expected collateral credit losses [1]					
Loss percentage from currently defaulted or deferring collateral [2]			5.8 %		24.3 %
Projected loss percentage from currently performing collateral					
1-year		0.3 %	6.1 %	0.3 %	24.6 %
years 2-5		1.7 %	7.8 %	1.3 %	25.9 %
years 6-30		11.1 %	18.9 %	9.4 %	35.3 %
Discount rate [3]					
Weighted average spread over LIBOR		860 bps		859 bps	
Sensitivity of Modeled Assumptions					
Increase (decrease) in fair value due to increase in projected loss percentage from currently performing collateral [4]	25%	$(0.8)		$(8.8)	
	50%	(1.5)		(17.3)	
	100%	(3.1)		(34.5)	
Increase (decrease) in fair value due to increase in projected loss percentage from currently performing collateral [4] and the immediate default of all deferring collateral with no recovery	25%	$(6.4)		$(104.8)	
	50%	(7.2)		(111.1)	
	100%	(9.0)		(124.1)	
Increase (decrease) in fair value due to increase in discount rate	+100 bps	$(11.0)		$(56.8)	
	+200 bps	(20.6)		(107.3)	
Increase (decrease) in fair value due to increase in forward LIBOR curve	+100 bps	$8.6		$37.0	
Increase (decrease) in fair value due to:					
increase in prepayment assumption[5]	+1%	$4.1		$25.3	
increase in prepayment assumption[6]	+2%	8.3		48.2	

[1] 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.

[2] 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 12.03% to 100%.

[3]The discount rate is a spread over the forward LIBOR curve at the date of valuation.

[4] 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 40.8% =

35.3%+50%(0.3%+1.3%+9.4%) and 46.3% = 35.3%+100%(0.3%+1.3%+9.4%), respectively.

[5] Prepayment rate for small banks increased to 11% per year for the first three years and to 4% per year thereafter through maturity.

[6] Prepayment rate for small banks increased to 12% per year for the first three years and to 5% per year thereafter through maturity.

The 2012 sensitivity analysis of valuation assumptions, when compared to the same projection for 2011, identifies the impact of the faster prepayment rate assumption change combined with the increased PD assigned to collateral

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remaining in deferral at year end. The effect was to increase assumed collateral credit losses in both the short- and long-term beyond those projected at 2011.

The discount rates applicable to CDO tranches decreased during the year consistent with observed improved discount rates for riskier assets. The result was an increase in the fair values of the CDOs.

Bank Collateral Deferral Experience

The Company’s loss and recovery experience as of December 31, 2012 (and our Level 3 modeling assumption) is essentially a 100% loss on defaults of bank collateral in CDOs, although we have, to date, received several, generally small, recoveries on defaults. Our experience with deferring bank collateral has been that 50% has defaulted, and approximately 30% remains within the allowable deferral period. This 30% is comprised of 196 deferring bank holding companies. Late 2012 events led the Company to increase its loss assumptions on these remaining deferrals, most of which are more than half-way through their allowable deferral period. We expect that future losses on these deferrals may result from actions other than bank failures - primarily bankruptcies and debt restructurings.

In contrast, a significant number of previous deferrals have resumed interest payments. 71 issuing banks, with collateral aggregating to 20% of all deferrals and 40% 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 seven of the 71 banks which had resumed payment after deferring. Further information on the Company’s valuation process is detailed in Note 20 of the Notes to Consolidated Financial Statements.

Schedules 15 and 16 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 the number of currently performing issuers noted in Schedule 16 are from the same security. The remaining statistics may not be from the same security.

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Schedule 15
BANK AND INSURANCE TRUST PREFERRED CDO VALUES CURRENTLY RATED BELOW-INVESTMENT-GRADE –SORTED BY WHETHER OTTI HAS BEEN TAKEN AND BY ORIGINAL RATINGS
At December 31, 2012

			Total				Credit loss		Valuation losses [1]
(Dollar amounts in millions)	Number of securities	% of portfolio	Par value	Amortized cost	Estimated fair value	Unrealized loss	Current year	Life-to-date	Life-to-date
Original ratings of securities, no OTTI recognized:									
Original AAA	24	34.4 %	$752	$ 680	$495	$(185)	$—	$—	$(98)
Original A	16	16.5	361	361	177	(184)	—	—	—
Original BBB	5	2.1	46	46	20	(26)	—	—	—
Total Non-OTTI		53.0	1,159	1,087	692	(395)	—	—	(98)
Original ratings of securities, OTTI recognized:									
Original AAA	1	2.3	50	44	20	(24)	—	(5)	(2)
Original A	45	41.6	908	600	254	(346)	(87)	(312)	—
Original BBB	6	3.1	67	7	3	(4)	(17)	(60)	—
Total OTTI		47.0	1,025	651	277	(374)	(104)	(377)	(2)
Total below-investment-grade bank and insurance CDOs		100.0 %	$2,184	$ 1,738	$969	$(769)	$(104)	$(377)	$(100)

	Average amount of each security held [2]			
(In millions)	Par value	Amortized cost	Estimated fair value	Unrealized gain (loss)
Original ratings of securities, no OTTI recognized:				
Original AAA	$30	$27	$20	$(7)
Original A	15	15	7	(8)
Original BBB	9	9	4	(5)
Original ratings of securities, OTTI recognized:				
Original AAA	50	43	20	(23)
Original A	17	11	5	(6)
Original BBB	11	1	1	—

[1] Valuation losses relate to securities purchased from Lockhart Funding LLC prior to its consolidation in June 2009.
[2] The Company may have more than one holding of the same security.

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Schedule 16
POOL LEVEL PERFORMANCE AND PROJECTIONS FOR BELOW-INVESTMENT-GRADE RATED BANK AND INSURANCE TRUST PREFERRED CDOs
At December 31, 2012

	Current lowest rating	# of issuers in collateral pool	# of issuers currently performing[1]	% of original collateral defaulted[2]	% of original collateral deferring[3]	Subordination as a % of performing collateral[4]	Collateral-ization %[5]	Present value of expected cash flows discounted at effective rate as a % of par	Lifetime additional assumed incurred loss from performing collateral[6]
Original ratings of securities, non-OTTI:									
Original AAA									
Best	BB	22	20	2.6 %	4.3 %	79.9 %	643.0 %	100 %	—
Weighted average				16.9	10.2	40.1	242.5	100	10.5 %
Worst	CC	31	15	28.7	23.1	12.4	145.1	100	13.7
Original A									
Best	B	32	32	—	—	27.0	309.3	100	11.6
Weighted average				2.1	4.4	18.3	153.5	100	12.6
Worst	CC	6	4	9.0	7.1	(0.7)[7]	97.3[8]	100	13.7
Original BBB									
Best	CCC	32	32	—	—	19.4	355.8	100	11.6
Weighted average				1.3	3.2	12.5	275.8	100	12.8
Worst	CC	21	18	4.0	6.7	7.6	234.7	100	13.7
Original ratings of securities, OTTI:									
Original AAA									
Single security	CCC	43	26	19.9	18.8	23.6	195.0	100	9.7
Original A									
Best	CC	35	30	0.8	1.9	(5.9)	87.4	99	—
Weighted average				12.5	12.7	(22.3)	52.5	68	11.4
Worst	C	3	—	33.3	27.2	(131.9)	12.8	25	16.3
Original BBB									
Best	C	40	34	6.3	6.5	(8.1)	62.3	66	7.1
Weighted average				16.7	15.9	(44.5)	(220.1)	10	9.9
Worst	C	32	13	22.0	19.6	(84.1)	(407.3)	—	13.4

[1] Excludes both defaulted issuers and issuers that have elected to defer payment of current interest.

[2] Collateral is identified as defaulted when a regulator closes an issuing bank.

[3] 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.

[4] “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. The calculations utilize the Company’s loss assumption of 100% on

defaulted collateral and the Company's issuer specific loss assumption of from 12.03% to 100% dependent on credit for each deferring piece of collateral.

[5] "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 is the par amount of the tranche. Par is defined as the original par less any principal paydowns. The calculations utilize the Company's loss assumption of 100% on defaulted collateral and the Company's issuer specific loss assumption ranging from 12.03% to 100% dependent on credit for each deferring piece of collateral.

[6] 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.

[7] Negative subordination is projected to be remedied by excess spread prior to maturity.

[8] Collateralization shortfall is projected to be remedied by excess spread prior to maturity.

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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.

Schedule 17 presents the maturities of the different types of investments that the Company owned and the corresponding average yield as of December 31, 2012 based on amortized cost. It should be noted that most of the SBA loan-backed securities and asset-backed securities are variable rate and their repricing periods are significantly less than their contractual maturities. See "Liquidity Risk Management" on page 83 and Notes 1, 5 and 7 of the Notes to Consolidated Financial Statements for additional information about the Company's investment securities and their management.

Schedule 17

MATURITIES AND AVERAGE YIELDS ON SECURITIES

At December 31, 2012

	Total securities		Within one year		After one but within five years		After five but within ten years		After ten years	
(Amounts in millions)	Amount	Yield*	Amount	Yield*	Amount	Yield*	Amount	Yield*	Amount	Yield*
Held-to-maturity										
Municipal securities	$525	6.2 %	$67	5.8 %	$192	5.9 %	$126	6.2 %	$140	6.8 %
Asset-backed securities:										
Trust preferred securities – banks and insurance	255	2.1	1	2.4	2	2.3	45	2.1	207	2.1
Other	22	1.1	—		7	1.2	11	1.2	4	1.0
	802	4.8	68	5.7	201	5.7	182	4.9	351	4.0
Available-for-sale										
U.S. Treasury securities	104	0.2	103	0.1	1	8.3	—		—	
U.S. Government agencies and corporations:										
Agency securities	109	4.5	15	4.5	43	4.4	37	4.2	14	5.0
Agency guaranteed mortgage-backed securities	407	3.0	67	3.0	174	3.0	98	2.9	68	2.9
Small Business Administration loan-backed securities	1,124	2.5	224	2.5	540	2.5	249	2.5	111	2.4
Municipal securities	75	6.7	2	7.5	18	6.7	34	8.2	21	4.2

Asset-backed securities:										
Trust preferred securities – banks and insurance	1,596	1.2	100	1.4	262	1.3	199	1.2	1,035	1.1
Trust preferred securities – real estate investment trusts	41	0.8	—		—		6	0.8	35	0.8
Auction rate securities	7	1.0	—		—		—		7	1.0
Other	26	1.7	4	3.3	9	1.6	4	1.2	9	1.2
	3,489	2.0	515	1.9	1,047	2.4	627	2.5	1,300	1.4
Mutual funds and other	228	1.3	228	1.3	—		—		—	
	3,717	1.9	743	1.7	1,047	2.4	627	2.5	1,300	1.4
Total	$4,519	2.4	$811	2.1	$1,248	2.9	$809	3.1	$1,651	1.9

*Taxable-equivalent rates used where applicable.

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As shown in Schedule 18, the investment securities portfolio at December 31, 2012 includes $578 million of nonrated municipal, single-issuer trust preferred, and certain other fixed-income securities compared to $607 million at December 31, 2011. Nonrated municipal securities held in the portfolio were underwritten by Zions Bank's Municipal Credit Department in accordance with its established municipal credit standards. In addition to the amounts shown in Schedule 18, we invest in debt securities of certain U.S. Government agencies and corporations which, while considered to be of high credit quality, are not specifically rated by any NRSROs.

Schedule 18
NONRATED SECURITIES

	December 31,	
(In millions)	2012	2011
Municipal securities	$ 515	$ 554
Other nonrated debt securities	63	53
	$ 578	$ 607

Other-Than-Temporary Impairment – Investments in Debt Securities

We review investments in debt securities each quarter 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 by writing down the amortized cost of each security found to have OTTI.

For some CDO tranches, for which we have 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 substantiates the return of the full amortized cost. We utilize a present value technique to both identify the OTTI present in the CDO tranches and to estimate fair value. The primary drivers of unrealized losses in these CDOs are further discussed in Note 5 of the Notes to Consolidated Financial Statements. During 2012, the Company recognized credit-related net impairment losses on CDOs of $104.1 million, compared to losses of $33.7 million in 2011. Schedule 19 identifies the sources of OTTI:

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Schedule 19
OTTI SOURCES

(In millions)	December 31, 2012	2011
Assumption changes on bank collateral:		
Increased prepayment rate [1]	$2.4	$11.0
PD overlay	50.4	
Combination of increased prepayment rate and PD overlay	30.7	
Increased medium-term PDs [2]		4.6
Increased long-term PDs [2]		2.5
Prepayments in our CDO pools	6.2	
Credit deterioration	14.4	11.3
Homebuilder bankruptcy		4.3
	$104.1	$33.7

[1] For 2012, we increased prepayment rates for small banks for the first 3 years to 10%, then 3% thereafter; for 2011, we increased prepayment rates to 3% for each year.
[2] For best performing banks

Exposure to State and Local Governments
The Company provides multiple products and services to state and local governments (referred together as "municipalities"), including deposit services, loans, investment banking services, and the Company invests in securities issued by the municipalities.

Schedule 20 summarizes the Company's exposure to state and local municipalities:

Schedule 20
MUNICIPALITIES

(In millions)	December 31, 2012	2011
Loans and leases	$494	$441
Held-to-maturity – municipal securities	525	565
Available-for-sale – municipal securities	75	121
Available-for-sale – auction rate securities	7	70
Trading account – municipal securities	21	9
Unused commitments to extend credit	33	103
Total direct exposure to municipalities	$1,155	$1,309

Company policy requires that extensions of credit to municipalities be subjected to specific underwriting standards. At December 31, 2012, one municipality had $9 million of loans that were on nonaccrual. A significant amount of the municipal loan and lease portfolio is secured by real estate and equipment, and approximately 94% of the outstanding credits were originated by Zions Bank, CB&T, Amegy, and Vectra. See Note 6 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; see Note 5 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, 91% are rated by major credit rating agencies and were rated investment grade as of December 31, 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 third party investors.

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 December 31, 2012, these transactions did not present any material direct or indirect risk exposure to the Company. Among the derivative transactions, the Company has a TRS agreement with Deutsche Bank AG (“DB”) with regard to certain bank and insurance trust preferred CDOs. See Note 7 of the Notes to Consolidated Financial Statements for additional information regarding the TRS. If DB were unable to perform under the TRS, the agreement would terminate at little or no cost to Zions. There would be only an immaterial balance sheet impact from cancellation, and the Company would save approximately $5.4 million in fees quarterly. However, if the TRS were canceled, 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 $3.2 billion, which would reduce regulatory risk-based capital ratios by approximately 6% to 7%.

Loans Held for Sale

Loans held for sale, consisting primarily of consumer mortgage and small business loans to be sold in the secondary market, were $252 million at December 31, 2012, compared to $202 million at December 31, 2011. Consumer loans are primarily fixed rate mortgages that are originated and sold to third parties.

Loan Portfolio

As of December 31, 2012, net loans and leases accounted for 67.9% of total assets compared to 70.1% at the end of 2011. Schedule 21 presents the Company’s loans outstanding by type of loan as of the five most recent year-ends. The schedule also includes a maturity profile for the loans that were outstanding as of December 31, 2012. However, while this schedule reflects the contractual maturity and repricing characteristics of these loans, in certain cases the Company has hedged the repricing characteristics of its variable-rate loans as more fully described in “Interest Rate Risk” on page 79.

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Schedule 21
LOAN PORTFOLIO BY TYPE AND MATURITY

(Amounts in millions)	December 31, 2012				December 31,			
	One year or less	One year through five years	Over five years	Total	2011	2010	2009	2008
Commercial:								
Commercial and industrial	$6,416	$3,687	$1,154	$11,257	$10,448	$9,198	$9,653	$11,210
Leasing	39	283	101	423	380	365	409	381
Owner occupied	385	1,307	5,897	7,589	8,159	8,212	8,745	8,737
Municipal	46	104	344	494	441	438	355	288
Total commercial	6,886	5,381	7,496	19,763	19,428	18,213	19,162	20,616
Commercial real estate:								
Construction and land development	735	1,007	197	1,939	2,265	3,558	5,535	7,490
Term	1,011	3,282	3,770	8,063	7,883	7,564	7,240	6,183
Total commercial real estate	1,746	4,289	3,967	10,002	10,148	11,122	12,775	13,673
Consumer:								
Home equity credit line	26	122	2,030	2,178	2,187	2,145	2,138	2,009
1-4 family residential	37	129	4,184	4,350	3,921	3,504	3,647	3,881
Construction and other consumer real estate	132	12	177	321	306	342	458	773
Bankcard and other revolving plans	144	139	24	307	291	297	341	374
Other	31	158	27	216	226	236	294	386
Total consumer	370	560	6,442	7,372	6,931	6,524	6,878	7,423
FDIC-supported loans	158	215	155	528	751	971	1,445	—
Total net loans	$9,160	$10,445	$18,060	$37,665	$37,258	$36,830	$40,260	$41,712
Loans maturing:								
With fixed interest rates	$1,259	$4,016	$3,517	$8,792				
With variable interest rates	7,901	6,429	14,543	28,873				
Total	$9,160	$10,445	$18,060	$37,665				

As of December 31, 2012, net loans and leases were $37.7 billion, reflecting a 1.1% increase from the prior year. The increase is primarily attributable to new loan originations, as well as a decrease in charge-offs of existing loans.

Most of the loan portfolio growth during 2012 occurred in commercial and industrial, 1-4 family residential, and CRE term loans. The impact of these increases was partially offset by declines in owner occupied, construction and land development loans, and FDIC-supported loans. The loan portfolio increased primarily at Amegy, NBA and Vectra, while balances declined at Zions Bank, NSB and CB&T.

Commercial and industrial loans as well as 1-4 family residential consumer loans improved due to increased customer demand, while the increase in commercial real estate term loans was driven, in part, by construction loans converting to term loans when projects are completed. Commercial owner occupied loans declined due to active management of the National Real Estate loan portfolio at Zions Bank. Construction and land development loans declined primarily due to pay-downs and the completion of construction projects. The demand for these types of loans began to increase

during 2012 following very weak demand experienced throughout 2011. We expect construction and land development loan balances to increase at a moderate rate in 2013. The balance of FDIC-supported loans declined mainly due to pay-downs and pay-offs, and the fact that the Company has not purchased additional loans with FDIC loss sharing coverage since 2009, and we expect FDIC-supported loan balances to decline significantly over the next few years.

Loans serviced for the benefit of others amounted to approximately $2.6 billion and $2.3 billion, at December 31, 2012, and 2011, respectively.

Foreign loans consist primarily of commercial and industrial loans and totaled $99 million and $46 million at December 31, 2012 and 2011, respectively.

Other Noninterest-Bearing Investments
Schedule 22 sets forth the Company's other noninterest-bearing investments:
Schedule 22
OTHER NONINTEREST-BEARING INVESTMENTS

	December 31,	
(In millions)	2012	2011
Bank-owned life insurance	$456	$443
Federal Home Loan Bank stock	109	116
Federal Reserve stock	123	132
SBIC investments	46	39
Non-SBIC investment funds and other	107	121
Trust preferred securities	14	14
	$855	$865

Deposits
Deposits, both interest-bearing and noninterest-bearing, are a primary source of funding for the Company. Average total deposits increased by 5.2% during 2012, with average interest-bearing deposits increasing by 0.1% and average noninterest-bearing deposits increasing 14.7%. The increase in noninterest-bearing deposits was largely driven by increased deposits from business customers. The average interest rate paid for interest bearing deposits was 18 bps lower in 2012 than in 2011.
Core deposits at December 31, 2012, which exclude time deposits larger than $100,000 and brokered deposits, increased by 9.0%, or $3,688 million, from December 31, 2011. The increase was mainly due to increases in noninterest-bearing and interest-bearing demand deposits and savings and money market accounts, partially offset by decreases in time deposits.
Demand and savings and money market deposits comprised 89.7% of total deposits at December 31, 2012, compared with 88.4% at December 31, 2011.
During 2012 and 2011, the Company maintained a low level of brokered deposits with the primary purpose of keeping that funding source available in case of a future need. At December 31, 2012, total deposits included $37 million of brokered deposits compared to $204 million at December 31, 2011.
See Notes 10 and 11 of the Notes to Consolidated Financial Statements and "Liquidity Risk Management" on page 83 for additional information on funding and borrowed funds.

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 the corporate New Product Review Committee.

Both the credit policy and the credit examination functions are managed centrally. Each affiliate bank is able to be more conservative in its operations under the corporate credit policy; however, formal corporate approval must be obtained if a bank wishes to invoke a more liberal policy. Historically, there have been only a limited number of such approvals. 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 December 31, 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 CRE 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. These concentration limits, particularly with regard to various categories of CRE and real estate development are materially lower than they were in 2007 and 2008, just prior to the emergence of the recent economic downturn. The majority of the Company's business activity is with customers located within the geographical footprint of its banking subsidiaries.

The credit quality of the Company's loan portfolio improved during 2012. Nonperforming lending-related assets decreased by 29.9% from December 31, 2011. Gross charge-offs for 2012 declined to $267 million from $560 million in the previous year. Net charge-offs decreased to $155 million from $456 million for the same periods.

As displayed in Schedule 23, commercial and industrial loans were the largest category and constituted 29.9% of the Company's loan portfolio at December 31, 2012. Construction and land development loans decreased to 5.1% of total loans at the end of 2012 compared to 6.1% at the end of 2011. Construction and land development loans have declined significantly from a pre-recession level of 20.1% of total loans at the end of 2007.

Schedule 23
LOAN PORTFOLIO DIVERSIFICATION

(Amounts in millions)	December 31, 2012 Amount	% of total loans		December 31, 2011 Amount	% of total loans	
Commercial:						
Commercial and industrial	$ 11,257	29.9	%	$ 10,448	28.0	%
Leasing	423	1.1		380	1.0	
Owner occupied	7,589	20.1		8,159	21.9	
Municipal	494	1.3		441	1.2	
Total commercial	19,763			19,428		
Commercial real estate:						
Construction and land development	1,939	5.1		2,265	6.1	
Term	8,063	21.4		7,883	21.2	
Total commercial real estate	10,002			10,148		
Consumer:						
Home equity credit line	2,178	5.8		2,187	5.9	
1-4 family residential	4,350	11.6		3,921	10.5	
Construction and other consumer real estate	321	0.9		306	0.8	
Bankcard and other revolving plans	307	0.8		291	0.8	
Other	216	0.6		226	0.6	
Total consumer	7,372			6,931		
FDIC-supported loans	528	1.4		751	2.0	
Total net loans	$ 37,665	100.0	%	$ 37,258	100.0	%

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. The Company does not expect total losses to exceed this higher threshold because acquired loans have performed better than originally expected. FDIC-supported loans represented 1.4% and 2.0% of the Company’s total loan portfolio at December 31, 2012, and 2011, respectively.

Schedule 24
NET LOSSES COVERED BY FDIC LOSS SHARING AGREEMENTS

(In millions)	Inception through December 31, 2012 Total actual net losses	Threshold
Alliance Bank	$ 171	$ 275
Great Basin Bank	11	40
Vineyard Bank	210	465
	$ 392	$ 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 December 31, 2012, the principal balance of these loans

was $590 million, and the guaranteed portion was approximately $440 million. Most of these loans were guaranteed by the Small Business Administration.

Schedule 25 presents the composition of government agency guaranteed loans, excluding FDIC-supported loans:

Schedule 25
GOVERNMENT GUARANTEES

(Amounts in millions)	December 31, 2012	Percent guaranteed	December 31, 2011	Percent guaranteed
Commercial	$567	74%	$581	74%
Commercial real estate	20	76	20	75
Consumer	3	100	2	100
Total loans excluding FDIC-supported loans	$590	75	$603	74

Commercial Lending

Schedule 26 provides selected information regarding lending concentrations to certain industries in our commercial lending portfolio:

Schedule 26
COMMERCIAL LENDING BY INDUSTRY GROUP

(Amounts in millions)	December 31, 2012			December 31, 2011		
	Amount	Percent		Amount	Percent	
Real estate, rental and leasing	$2,782	14.1	%	$2,755	14.2	%
Manufacturing	1,999	10.1		2,069	10.6	
Mining, quarrying and oil and gas extraction	1,992	10.1		1,763	9.1	
Retail trade	1,661	8.4		1,646	8.5	
Wholesale trade	1,521	7.7		1,600	8.2	
Healthcare and social assistance	1,205	6.1		1,245	6.4	
Finance and insurance	1,093	5.5		865	4.5	
Construction	1,016	5.1		1,083	5.6	
Transportation and warehousing	1,001	5.1		949	4.9	
Professional, scientific and technical services	968	4.9		953	4.9	
Accommodation and food services	786	4.0		825	4.2	
Other [1]	3,739	18.9		3,675	18.9	
Total	$19,763	100.0	%	$19,428	100.0	%

[1] No other industry group exceeds 5%.

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Commercial Real Estate Loans
As reflected in Schedule 27, the CRE portfolio is well diversified by property type, purpose, and collateral location.

Schedule 27
COMMERCIAL REAL ESTATE PORTFOLIO BY PROPERTY TYPE AND COLLATERAL LOCATION
Represents Percentages Based Upon Outstanding Commercial Real Estate Loans
At December 31, 2012

(Amounts in millions)		Collateral Location									% of total CRE	% of loan type
Loan type	Balance [1]	Arizona	Northern California	Southern California	Nevada	Colorado	Texas	Utah/ Idaho	Wash-ington	Other		
Commercial term												
Industrial		1.65 %	0.89 %	3.27 %	0.70 %	0.83 %	0.96 %	0.86 %	0.35 %	0.88 %	10.39 %	12.76 %
Office		2.08	1.66	4.13	0.82	0.92	1.41	2.74	0.36	0.95	15.07	18.52
Retail		2.31	1.28	3.80	1.73	0.96	3.21	1.39	0.36	1.74	16.78	20.60
Hotel/motel		2.20	0.95	1.49	0.79	0.91	1.21	1.42	0.20	2.74	11.91	14.62
Acquisition/development		0.05	0.06	0.52	0.06	0.01	—	—	—	—	0.70	0.86
Medical		0.60	0.08	0.76	0.77	0.03	0.43	0.30	0.09	0.09	3.15	3.87
Recreation/restaurant		0.41	0.09	0.72	0.19	0.09	0.33	0.20	0.09	0.63	2.75	3.37
Multifamily		1.79	0.51	5.51	0.27	0.78	1.41	1.74	0.46	0.92	13.39	16.45
Other		0.81	0.66	1.81	0.78	0.79	0.33	1.28	0.16	0.67	7.29	8.95
Total	$7,909	11.90	6.18	22.01	6.11	5.32	9.29	9.93	2.07	8.62	81.43	100.00
Residential construction and land development												
Single family housing		0.18	0.30	0.66	—	0.25	0.99	0.03	0.03	—	2.44	35.29
Acquisition/development		0.63	0.06	0.21	—	0.06	1.07	0.61	—	0.12	2.76	40.04
Loan lot investor		0.18	0.06	0.40	0.01	0.05	0.13	0.41	0.01	0.12	1.37	19.77
Condo		—	—	0.16	—	—	0.04	0.05	—	0.09	0.34	4.90
Total	671	0.99	0.42	1.43	0.01	0.36	2.23	1.10	0.04	0.33	6.91	100.00
Commercial construction and land development												
Industrial		0.02	—	0.06	—	—	0.22	—	0.02	0.03	0.35	2.96
Office		0.01	0.14	0.44	0.05	—	0.62	0.17	—	0.03	1.46	12.52
Retail		0.11	0.04	0.18	0.03	0.10	0.34	0.42	—	0.03	1.25	10.71
Hotel/motel		0.06	—	0.05	—	0.05	0.15	0.06	—	0.02	0.39	3.37
Acquisition/development		0.33	0.23	0.29	0.34	0.47	0.96	0.81	0.07	0.05	3.55	30.53
Medical		0.04	—	—	—	—	0.05	0.17	—	—	0.26	2.26
Multifamily		0.25	0.06	0.94	0.06	0.17	1.32	0.67	0.03	0.05	3.55	30.36
Other		0.06	—	0.03	0.17	0.06	0.27	0.26	—	—	0.85	7.29
Total	1,133	0.88	0.47	1.99	0.65	0.85	3.93	2.56	0.12	0.21	11.66	100.00
Total construction and land development	1,804	1.87	0.89	3.42	0.66	1.21	6.16	3.66	0.16	0.54	18.57	
Total commercial	$9,713	13.77	7.07	25.43	6.77	6.53	15.45	13.59	2.23	9.16	100.00	

real estate

[1] Excludes approximately $289 million of unsecured loans outstanding, but related to the real estate industry.

Selected information indicative of credit quality regarding our CRE loan portfolio is presented in Schedule 28.

Schedule 28

COMMERCIAL REAL ESTATE PORTFOLIO BY LOAN TYPE AND COLLATERAL LOCATION

At December 31, 2012

(Amounts in millions)		Collateral Location										
Loan type	As of date	Arizona	Northern California	Southern California	Nevada	Colorado	Texas	Utah/ Idaho	Wash-ington	Other [1]	Total	% o tota CR
Commercial term												
Balance outstanding	12/31/2012	$1,180	$604	$2,155	$605	$518	$934	$1,013	$205	$849	$8,063	80.
% of loan type		14.7 %	7.5 %	26.7 %	7.5 %	6.4 %	11.6 %	12.6 %	2.5 %	10.5 %	100.0 %	
Delinquency rates [2]:												
30-89 days	12/31/2012	0.2 %	0.1 %	0.1 %	0.2 %	—	0.1 %	0.2 %	1.3 %	1.6 %	0.3 %	
	12/31/2011	0.6 %	0.4 %	1.2 %	0.5 %	0.5 %	1.6 %	0.5 %	—	1.1 %	0.9 %	
≥ 90 days	12/31/2012	0.3 %	1.3 %	0.5 %	0.8 %	0.7 %	0.5 %	0.1 %	—	2.1 %	0.7 %	
	12/31/2011	0.9 %	0.3 %	0.3 %	0.4 %	—	1.7 %	0.6 %	—	2.1 %	0.8 %	
Accruing loans past due 90 days or more	12/31/2012	$—	$—	$—	$—	$—	$—	$—	$—	$—	$—	
	12/31/2011	—	—	—	—	—	3	—	—	1	4	
Nonaccrual loans	12/31/2012	10	9	19	14	11	8	4	3	47	125	
	12/31/2011	14	3	27	37	14	23	9	—	29	156	
Residential construction and land development												
Balance outstanding	12/31/2012	$96	$42	$156	$1	$35	$234	$111	$4	$35	$714	7.1
% of loan type		13.4 %	5.9 %	21.8 %	0.1 %	5.0 %	32.8 %	15.5 %	0.6 %	4.9 %	100.0 %	
Delinquency rates [2]:												
30-89 days	12/31/2012	0.6 %	1.0 %	0.4 %	10.7 %	4.9 %	7.9 %	0.2 %	—	—	3.1 %	
	12/31/2011	0.6 %	14.1 %	—	0.8 %	13.8 %	0.4 %	0.2 %	—	—	1.3 %	
≥ 90 days	12/31/2012	0.7 %	—	0.2 %	—	0.5 %	6.7 %	—	—	—	2.4 %	
	12/31/2011	2.7 %	—	3.9 %	6.8 %	5.3 %	11.6 %	4.5 %	24.1 %	—	6.7 %	
Accruing loans past due 90 days or more	12/31/2012	$—	$—	$—	$—	$—	$1	$—	$—	$—	$1	
	12/31/2011	1	—	—	—	—	—	—	—	—	1	
Nonaccrual loans	12/31/2012	6	—	—	—	—	29	4	—	—	39	
	12/31/2011	13	—	6	5	2	50	15	—	—	91	
Commercial construction and land development												
Balance outstanding	12/31/2012	$86	$49	$194	$68	$85	$452	$254	$12	$25	$1,225	12.
% of loan type		7.0 %	4.0 %	15.8 %	5.6 %	6.9 %	36.9 %	20.7 %	1.0 %	2.1 %	100.0 %	
Delinquency rates [2]:												

30-89 days	12/31/2012	2.4 %	—	—	27.9 %	0.4 %	2.0 %	2.3 %	—	7.3 %	3.1 %	
	12/31/2011	1.6 %	—	—	—	4.4 %	1.7 %	—	—	—	1.2 %	
≥ 90 days	12/31/2012	—	2.6 %	0.1 %	0.2 %	—	4.0 %	—	—	—	1.6 %	
	12/31/2011	2.1 %	—	1.1 %	5.6 %	5.5 %	6.0 %	1.7 %	—	—	3.6 %	
Accruing loans past due 90 days or more	12/31/2012	$—	$—	$—	$—	$—	$—	$—	$—	$—	$—	
	12/31/2011	—	—	2	—	—	—	—	—	—	2	
Nonaccrual loans	12/31/2012	—	1	—	22	—	29	14	3	—	69	
	12/31/2011	6	—	—	12	9	82	20	—	—	129	
Total construction and land development	12/31/2012	$182	$91	$350	$69	$120	$686	$365	$16	$60	$1,939	
Total commercial real estate	12/31/2012	$1,362	$695	$2,505	$674	$638	$1,620	$1,378	$221	$909	$10,002	100

[1]No other geography exceeds $104 million for all three loan types.
[2]Delinquency rates include nonaccrual loans.

Approximately 33% of the CRE term loans consist of mini-perm loans as of December 31, 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 67% of CRE 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, loan-to-value ratio, and occupancy rates.
Approximately 28% of the commercial construction and land development portfolio at December 31, 2012 consists of acquisition and development loans. Most of these acquisition and development loans 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 (with the exception of multifamily projects)we look for substantial pre-leasing 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 involves 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 the Company's 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 semiannually at Amegy, CB&T, NBA, NSB, Vectra and Zions Bank. CBO and CBW perform such reviews annually.

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 to complete 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 December 31, 2012 and 2011, Zions' affiliates had 451 and 356 loans with an outstanding balance of $477 million and $413 million where available interest reserves amounted to $73 million and $36 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 CRE loans. However, we do make use of personal or other guarantees as risk mitigation strategies.

CRE 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 in the modification is less than current market rates, it may indicate that a concession was granted and 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 analysis 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 that the loans meet 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 either 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 $348 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 December 31, 2012, approximately $28 million of these loans had refreshed FICO® scores of less than 620. These totals exclude held-for-sale loans. Stated income loans account for approximately $3.8 million, or 23%, of our credit losses in 1-4 family residential first mortgage loans during 2012, and were primarily at Zions Bank and NBA.

The Company is engaged in home equity credit line ("HECL") lending. At December 31, 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 Schedule 29:

Schedule 29
JR. LIEN HECLs – OUTSTANDING BALANCES AND TOTAL COMMITMENTS

(In millions)	December 31, 2012		December 31, 2011	
Year of origination	Outstanding balance	Total commitments	Outstanding balance	Total commitments
2012	$117	$234		
2011	97	182	$109	$206
2010	68	122	84	147
2009	65	125	83	149
2008	158	250	184	262
2007	189	295	228	299
2006 and prior	419	910	492	918
Total	$1,113	$2,118	$1,180	$1,981

More than 98% of the Company's HECL portfolio is still in the draw period, and approximately 52% 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 and ability to repay the loan. Of the total home equity credit line portfolio, including FDIC-supported loans, 0.27% was 90 or more days past due at December 31, 2012 as compared to 0.52% at December 31, 2011. During 2012, the Company modified $0.7 million of home equity credit lines. The annualized credit losses for the HECL portfolio were 86 and 105 bps for 2012 and 2011, respectively.

As of December 31, 2012, loans representing approximately 14% of the outstanding balance in the HECL portfolio were estimated to have combined loan-to-value ratios ("CLTV") above 100%. An estimated CLTV ratio is the ratio of our loan plus any prior lien amounts divided by the estimated current collateral value. The estimated current collateral value is 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. Additional detail for the CLTV as of December 31, 2012 and 2011 is shown in Schedule 30:

Schedule 30
HECL PORTFOLIO BY COMBINED LOAN-TO-VALUE

CLTV	Percentage of HECL portfolio December 31, 2012		2011	
>100%	14	%	17	%
90-100%	9		11	
80-89%	13		15	
< 80%	64		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 6 of the Notes to Consolidated Financial Statements for additional information on the allowance.

Nonperforming Assets

Nonperforming lending-related assets as a percentage of loans and leases and OREO decreased to 1.96% at December 31, 2012, compared with 2.83% at December 31, 2011.

Total nonaccrual loans, excluding FDIC-supported loans, at December 31, 2012 decreased by $255 million from the prior year. The decrease is primarily due to a $112 million decrease in construction and land development, a $36 million decrease in commercial and industrial, and a $33 million decrease in commercial owner occupied loans. The largest total decreases in nonaccrual loans occurred at Amegy, NBA, and Vectra.

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. If a restructured loan performs under the new terms for a period of six months, the loan can be considered for return to accrual status. See “Restructured Loans” on page 75 for more information. Company policy does not allow for the conversion of nonaccrual construction and land development loans to CRE term loans. See Note 6 of the Notes to Consolidated Financial Statements for more information.

Schedule 31 sets forth the Company’s nonperforming lending-related assets:

Schedule 31
NONPERFORMING LENDING-RELATED ASSETS

(Amounts in millions)	December 31,				
	2012	2011	2010	2009	2008
Nonaccrual loans:					
Loans held for sale	$—	$18	$—	$—	$30
Commercial:					
Commercial and industrial	91	127	224	319	148
Leasing	1	2	1	11	8
Owner occupied	206	239	342	474	158
Municipal	9	—	2	—	—
Commercial real estate:					
Construction and land development	108	220	494	825	457
Term	125	156	264	228	44
Consumer:					
Real estate	89	121	163	162	97
Other	2	3	3	4	4
Nonaccrual loans, excluding FDIC-supported loans	631	886	1,493	2,023	946
Other real estate owned:					
Commercial:					
Commercial properties	45	58	99	85	36
Developed land	10	4	6	14	7
Land	8	17	33	35	2
Residential:					
1-4 family	8	19	53	50	40
Developed land	14	21	50	119	71
Land	5	10	18	33	36
Other real estate owned, excluding FDIC-supported assets	90	129	259	336	192
Total nonperforming lending-related assets, excluding FDIC-supported assets	721	1,015	1,752	2,359	1,138
FDIC-supported nonaccrual loans	17	25	36	356	—
FDIC-supported other real estate owned	8	24	40	54	—
FDIC supported nonperforming lending-related assets	25	49	76	410	—
Total nonperforming lending-related assets	$746	$1,064	$1,828	$2,769	$1,138
Ratio of nonperforming lending-related assets to loans and leases[1] and other real estate owned	1.96 %	2.83 %	4.90 %	6.78 %	2.70 %
Accruing loans past due 90 days or more:					
Commercial	$6	$8	$11	$53	$50
Commercial real estate	1	7	7	33	48
Consumer	3	4	5	21	32
Total excluding FDIC-supported loans	10	19	23	107	130
FDIC-supported nonaccrual loans	52	75	119	56	—
Total	$62	$94	$142	$163	$130
Ratio of accruing loans past due 90 days or more to loans and leases[1]	0.16 %	0.25 %	0.38 %	0.40 %	0.31 %

[1] 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 carrying value of loans restructured using the A/B note strategy was approximately $160 million and $171 million at December 31, 2012 and 2011, respectively.

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.

Schedule 32

ACCRUING AND NONACCRUING TROUBLED DEBT RESTRUCTURED LOANS

	December 31,	
(In millions)	2012	2011
Restructured loans – accruing	$407	$448
Restructured loans – nonaccruing	216	296
Total	$623	$744

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 6 of the Notes to Consolidated Financial Statements for additional information regarding TDRs.

Schedule 33

TROUBLED DEBT RESTRUCTURED LOANS ROLLFORWARD

	December 31,	
(In millions)	2012	2011
Balance at beginning of year	$744	$755
New identified TDRs and principal increases	321	463
Payments and payoffs	(249)	(154)
Charge-offs	(32)	(74)
No longer reported as TDRs	(65)	(174)
Sales and other	(96)	(72)
Balance at end of year	$623	$744

As of December 31, 2012, TDR balances reflected recent changes in regulatory interpretative guidance from the OCC for national banks whose consumer borrowers had not reaffirmed their debt discharged in a Chapter 7 bankruptcy. During the fourth quarter of 2012, we adopted this guidance for all of our subsidiary banks. See Note 6 of the Notes to Consolidated Financial Statements for additional information.

Other Nonperforming Assets

In addition to the lending-related nonperforming assets, the Company had $187 million in fair value and $471 million in amortized cost of investments in debt securities (primarily bank and insurance company CDOs) that were on nonaccrual status at December 31, 2012, compared to $124 million and $613 million at December 31, 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.

Schedule 34 shows the changes in the allowance for loan losses and a summary of loan loss experience.

Schedule 34
SUMMARY OF LOAN LOSS EXPERIENCE

(Amounts in millions)	2012	2011	2010	2009	2008
Loans and leases outstanding on December 31, (net of unearned income)	$37,665	$37,258	$36,830	$40,260	$41,712
Average loans and leases outstanding, (net of unearned income)	$37,037	$36,897	$38,326	$41,569	$40,835
Allowance for loan losses:					
Balance at beginning of year	$1,052	$1,442	$1,532	$688	$460
Allowance associated with purchased securitized loans	—	—	—	—	2
Allowance of loans and leases sold	—	—	—	—	(1)
Provision charged against earnings	14	75	853	2,017	648
Adjustment for FDIC-supported loans	(15)	(9)	40	2	—
Charge-offs:					
Commercial	(121)	(241)	(417)	(373)	(100)
Commercial real estate	(85)	(229)	(517)	(713)	(269)
Consumer	(61)	(90)	(140)	(170)	(45)
Total	(267)	(560)	(1,074)	(1,256)	(414)
Recoveries:					
Commercial	56	55	35	51	9
Commercial real estate	42	35	44	21	7
Consumer	14	14	12	9	5
Total	112	104	91	81	21
Net loan and lease charge-offs	(155)	(456)	(983)	(1,175)	(393)
Reclassification to reserve for unfunded lending commitments	—	—	—	—	(28)
Balance at end of year	$896	$1,052	$1,442	$1,532	$688
Ratio of net charge-offs to average loans and leases	0.42%	1.24%	2.56%	2.83%	0.96%
Ratio of allowance for loan losses to net loans and leases, on December 31,	2.38%	2.82%	3.92%	3.81%	1.65%
Ratio of allowance for loan losses to nonperforming loans, on December 31,	138.25%	115.43%	94.32%	64.40%	72.66%
Ratio of allowance for loan losses to nonaccrual loans and accruing loans past due 90 days or more, on December 31,	126.22%	104.67%	86.31%	60.27%	63.92%

Schedule 35 provides a breakdown of the allowance for loan losses and the allocation among the portfolio segments.

Schedule 35
ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES
At December 31,

(Amounts in millions)	2012 % of total loans	Allocation of allowance	2011 % of total loans	Allocation of allowance	2010 % of total loans	Allocation of allowance	2009 % of total loans	Allocation of allowance	2008 % of total loans	Allocation of allowance
Loan segment										
Commercial	52.4 %	$594	52.1 %	52.5						