

ZIONS BANCORPORATION /UT/  
Form 10-Q  
May 10, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 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**  
(State or other jurisdiction of

incorporation or organization)

**87-0227400**  
(I.R.S. Employer

Identification No.)

**ONE SOUTH MAIN, 15<sup>TH</sup> FLOOR**

**SALT LAKE CITY, UTAH**  
(Address of principal executive offices)

**84133**  
(Zip Code)

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

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

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

Common Stock, without par value, outstanding at April 30, 2012 184,197,207 shares

**Table of Contents**

**ZIONS BANCORPORATION AND SUBSIDIARIES**

INDEX

	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
ITEM 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Income</u>	4
<u>Consolidated Statements of Comprehensive Income</u>	5
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	5
<u>Consolidated Statements of Cash Flows</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	53
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	95
ITEM 4. <u>Controls and Procedures</u>	96
<b><u>PART II. OTHER INFORMATION</u></b>	
ITEM 1. <u>Legal Proceedings</u>	96
ITEM 1A. <u>Risk Factors</u>	96
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	96
ITEM 6. <u>Exhibits</u>	96
<b><u>SIGNATURES</u></b>	99

**Table of Contents**PART I. FINANCIAL INFORMATIONITEM 1. FINANCIAL STATEMENTS (Unaudited)

## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	March 31, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Cash and due from banks	\$ 1,082,186	\$ 1,224,350
Money market investments:		
Interest-bearing deposits	7,629,399	7,020,895
Federal funds sold and security resell agreements	52,634	102,159
Investment securities:		
Held-to-maturity, at adjusted cost (approximate fair value \$728,479 and \$729,974)	797,149	807,804
Available-for-sale, at fair value	3,223,086	3,230,795
Trading account, at fair value	19,033	40,273
	4,039,268	4,078,872
Loans held for sale	184,579	201,590
Loans, net of unearned income and fees:		
Loans and leases	35,903,475	36,393,782
FDIC-supported loans	687,126	750,870
	36,590,601	37,144,652
Less allowance for loan losses	1,010,059	1,049,958
Loans, net of allowance	35,580,542	36,094,694
Other noninterest-bearing investments	875,037	865,231
Premises and equipment, net	715,815	719,276
Goodwill	1,015,129	1,015,129
Core deposit and other intangibles	63,538	67,830
Other real estate owned	158,592	153,178
Other assets	1,499,588	1,605,905
	\$ 52,896,307	\$ 53,149,109
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Deposits:		
Noninterest-bearing demand	\$ 16,185,140	\$ 16,110,857
Interest-bearing:		
Savings and NOW	7,406,910	7,159,101
Money market	14,813,495	14,616,740
Time	3,326,717	3,413,550
Foreign	1,366,826	1,575,361
	43,099,088	42,875,609
Securities sold, not yet purchased	47,404	44,486

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Federal funds purchased and security repurchase agreements	486,808	608,098
Other short-term borrowings	19,839	70,273
Long-term debt	2,283,121	1,954,462
Reserve for unfunded lending commitments	98,718	102,422
Other liabilities	474,551	510,531
Total liabilities	46,509,529	46,165,881
Shareholders' equity:		
Preferred stock, without par value, authorized 4,400,000 shares	1,737,633	2,377,560
Common stock, without par value; authorized 350,000,000 shares; issued and outstanding 184,228,178 and 184,135,388 shares	4,162,522	4,163,242
Retained earnings	1,060,525	1,036,590
Accumulated other comprehensive income (loss)	(571,567)	(592,084)
Controlling interest shareholders' equity	6,389,113	6,985,308
Noncontrolling interests	(2,335)	(2,080)
Total shareholders' equity	6,386,778	6,983,228
	\$ 52,896,307	\$ 53,149,109

*See accompanying notes to consolidated financial statements.*

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Interest income:</b>		
Interest and fees on loans	\$ 486,615	\$ 518,157
Interest on money market investments	4,628	2,843
<b>Interest on securities:</b>		
Held-to-maturity	8,959	8,664
Available-for-sale	23,158	22,276
Trading account	338	452
<b>Total interest income</b>	<b>523,698</b>	<b>552,392</b>
<b>Interest expense:</b>		
Interest on deposits	23,413	36,484
Interest on short-term borrowings	779	2,180
Interest on long-term debt	57,207	89,872
<b>Total interest expense</b>	<b>81,399</b>	<b>128,536</b>
<b>Net interest income</b>	<b>442,299</b>	<b>423,856</b>
<b>Provision for loan losses</b>	<b>15,664</b>	<b>60,000</b>
<b>Net interest income after provision for loan losses</b>	<b>426,635</b>	<b>363,856</b>
<b>Noninterest income:</b>		
Service charges and fees on deposit accounts	43,532	44,530
Other service charges, commissions and fees	34,226	41,685
Trust and wealth management income	6,374	6,754
Capital markets and foreign exchange	5,734	7,214
Dividends and other investment income	9,480	8,028
Loan sales and servicing income	8,352	6,013
Fair value and nonhedge derivative income (loss)	(4,400)	1,220
Equity securities gains, net	9,145	897
Fixed income securities gains (losses), net	720	(59)
<b>Impairment losses on investment securities:</b>		
Impairment losses on investment securities	(18,273)	(3,105)
Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income)	8,064	
<b>Net impairment losses on investment securities</b>	<b>(10,209)</b>	<b>(3,105)</b>
<b>Other</b>	<b>4,045</b>	<b>20,966</b>
<b>Total noninterest income</b>	<b>106,999</b>	<b>134,143</b>
<b>Noninterest expense:</b>		

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Salaries and employee benefits	224,634	215,010
Occupancy, net	27,951	28,010
Furniture and equipment	26,792	25,662
Other real estate expense	7,810	24,167
Credit-related expense	13,485	14,913
Provision for unfunded lending commitments	(3,704)	(9,540)
Legal and professional services	11,096	6,689
Advertising	5,807	6,911
FDIC premiums	10,919	24,101
Amortization of core deposit and other intangibles	4,291	5,701
Other	63,291	66,751
<b>Total noninterest expense</b>	<b>392,372</b>	<b>408,375</b>
Income before income taxes	141,262	89,624
Income taxes	51,859	37,033
Net income	89,403	52,591
Net loss applicable to noncontrolling interests	(273)	(226)
Net income applicable to controlling interest	89,676	52,817
Preferred stock dividends	(64,187)	(38,050)
Net earnings applicable to common shareholders	\$ 25,489	\$ 14,767
Weighted average common shares outstanding during the period:		
Basic shares	182,798	181,707
Diluted shares	182,964	181,998
Net earnings per common share:		
Basic	\$ 0.14	\$ 0.08
Diluted	0.14	0.08

*See accompanying notes to consolidated financial statements.*

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net income	\$ 89,403	\$ 52,591
Other comprehensive income (loss), net of tax:		
Net realized and unrealized holding gains (losses) on investments	22,614	(31,788)
Reclassification for net losses on investments included in earnings	5,798	1,954
Noncredit-related impairment losses on securities not expected to be sold	(4,980)	
Accretion of securities with noncredit-related impairment losses not expected to be sold	165	26
Net unrealized losses on derivative instruments	(3,080)	(8,059)
Other comprehensive income (loss)	20,517	(37,867)
Comprehensive income	109,920	14,724
Comprehensive loss applicable to noncontrolling interests	(273)	(226)
Comprehensive income applicable to controlling interest	\$ 110,193	\$ 14,950

*See accompanying notes to consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(In thousands, except per share amounts)	Preferred stock	Common stock		Retained earnings	Accumulated		Total
		Shares	Amount		comprehensive income (loss)	Noncontrolling interests	
Balance at December 31, 2011	\$ 2,377,560	184,135,388	\$ 4,163,242	\$ 1,036,590	\$ (592,084)	\$ (2,080)	\$ 6,983,228
Net income (loss) for the period				89,676		(273)	89,403
Other comprehensive income					20,517		20,517
Preferred stock redemption	(700,000)						(700,000)
Subordinated debt converted to preferred stock	34,839		(5,065)				29,774
Net activity under employee plans and related tax benefits		92,790	4,345				4,345
Dividends on preferred stock	25,234			(64,187)			(38,953)
Dividends on common stock, \$0.01 per share				(1,843)			(1,843)
Change in deferred compensation				289			289
Other changes in noncontrolling interests						18	18
Balance at March 31, 2012	\$ 1,737,633	184,228,178	\$ 4,162,522	\$ 1,060,525	\$ (571,567)	\$ (2,335)	\$ 6,386,778



Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Balance at December 31, 2010	\$ 2,056,672	182,784,086	\$ 4,163,619	\$ 889,284	\$ (461,296)	\$ (1,065)	\$ 6,647,214
Net income (loss) for the period				52,817		(226)	52,591
Other comprehensive loss					(37,867)		(37,867)
Subordinated debt converted to preferred stock	100,454		(14,605)				85,849
Issuance of common stock		1,067,540	25,048				25,048
Net activity under employee plans and related tax benefits		2,860	4,307				4,307
Dividends on preferred stock	5,273			(38,050)			(32,777)
Dividends on common stock, \$0.01 per share				(1,824)			(1,824)
Change in deferred compensation				2,020			2,020
Other changes in noncontrolling interests						26	26
Balance at March 31, 2011	\$ 2,162,399	183,854,486	\$ 4,178,369	\$ 904,247	\$ (499,163)	\$ (1,265)	\$ 6,744,587

*See accompanying notes to consolidated financial statements.*

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the period	\$ 89,403	\$ 52,591
Adjustments to reconcile net income to net cash provided by operating activities:		
Net impairment losses on investment securities	10,209	3,105
Provision for credit losses	11,960	50,460
Depreciation and amortization	57,143	89,806
Deferred income tax expense	19,685	53,790
Net increase (decrease) in trading securities	21,240	(7,882)
Net decrease in loans held for sale	20,913	28,471
Net write-down of and losses from sales of other real estate owned	7,832	19,750
Change in other liabilities	(18,799)	(36,824)
Change in other assets	50,425	18,154
Other, net	(21,916)	(2,200)
<b>Net cash provided by operating activities</b>	<b>248,095</b>	<b>269,221</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net increase in short term investments	(558,979)	(50,207)
Proceeds from maturities and paydowns of investment securities held-to-maturity	20,579	29,108
Purchases of investment securities held-to-maturity	(9,277)	(5,493)
Proceeds from sales, maturities, and paydowns of investment securities available-for-sale	440,982	302,250
Purchases of investment securities available-for-sale	(406,303)	(279,886)
Proceeds from sales of loans and leases	26,309	1,082
Net loan and lease collections (originations)	415,411	(44,811)
Net decrease in other noninterest-bearing investments	5,729	4,796
Net purchases of premises and equipment	(15,162)	(20,185)
Proceeds from sales of other real estate owned	39,399	91,841
Net cash paid for sale of branch	(22,568)	
<b>Net cash provided by (used in) investing activities</b>	<b>(63,880)</b>	<b>28,495</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in deposits	252,837	(342,542)
Net change in short-term funds borrowed	(168,831)	80,092
Proceeds from issuance of long-term debt	332,750	
Repayments of long-term debt	(141)	(156)
Cash paid for preferred stock redemption	(700,000)	
Proceeds from issuance of common stock	342	25,212
Dividends paid on common and preferred stock	(40,796)	(34,601)
Other, net	(2,540)	(707)
<b>Net cash used in financing activities</b>	<b>(326,379)</b>	<b>(272,702)</b>

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Net increase (decrease) in cash and due from banks	(142,164)	25,014
Cash and due from banks at beginning of period	1,224,350	924,126
Cash and due from banks at end of period	\$ 1,082,186	\$ 949,140
Cash paid for interest	\$ 62,789	\$ 91,281
Net cash refund received for income taxes	(21,668)	(108)
<i>See accompanying notes to consolidated financial statements.</i>		

---

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2012

1. BASIS OF PRESENTATION

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

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

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

2. CERTAIN RECENT ACCOUNTING PRONOUNCEMENTS

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

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

In April 2011, the FASB issued ASU 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*. The primary feature of this new accounting guidance under ASC 860, *Transfers and Servicing*, relates to the criteria that determine whether a sale or a secured borrowing occurred based on the transferor's maintenance of effective control over the transferred financial assets. The new guidance focuses on the transferor's contractual rights and obligations with respect to the transferred financial assets and not on the transferor's ability to perform under those rights and obligations. Accordingly, the collateral maintenance requirement is eliminated by ASU 2011-3 from the assessment of effective control. We adopted this new guidance effective January 1, 2012 as required. There was no material effect on the accompanying financial statements.

Additional recent accounting pronouncements are discussed where applicable in the Notes to Consolidated Financial Statements.

## 3. SUPPLEMENTAL CASH FLOW INFORMATION

Noncash activities are summarized as follows:

(In thousands)	Three Months Ended March 31,	
	2012	2011
Loans transferred to other real estate owned	\$ 52,575	\$ 89,529
Beneficial conversion feature transferred from common stock to preferred stock as a result of subordinated debt conversions	5,065	14,605
Subordinated debt converted to preferred stock	29,774	85,849

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

## 4. INVESTMENT SECURITIES

Investment securities are summarized as follows:

(In thousands)	March 31, 2012						
	Amortized cost	Recognized in OCI <sup>1</sup>		Carrying value	Not recognized in OCI		Estimated fair value
		unrealized gains	Gross unrealized losses		Gross unrealized gains	Gross unrealized losses	
<b>Held-to-maturity</b>							
Municipal securities	\$ 553,388	\$	\$	\$ 553,388	\$ 15,237	\$ 842	\$ 567,783
Asset-backed securities:							
Trust preferred securities banks and insurance	262,852		40,105	222,747	664	75,955	147,456
Other	24,209		3,295	20,914	448	8,222	13,140
Other debt securities	100			100			100
	\$ 840,549	\$	\$ 43,400	\$ 797,149	\$ 16,349	\$ 85,019	\$ 728,479
<b>Available-for-sale</b>							
U.S. Treasury securities	\$ 4,355	\$ 277	\$	\$ 4,632			\$ 4,632
U.S. Government agencies and corporations:							
Agency securities	134,673	4,447	142	138,978			138,978
Agency guaranteed mortgage-backed securities	504,359	18,757	47	523,069			523,069
Small Business Administration loan-backed securities	1,203,808	15,507	2,992	1,216,323			1,216,323
Municipal securities	117,673	3,565	1,698	119,540			119,540
Asset-backed securities:							
Trust preferred securities banks and insurance	1,770,741	18,959	853,471	936,229			936,229
Trust preferred securities real estate investment trusts	40,300		24,300	16,000			16,000
Auction rate securities	41,402	182	711	40,873			40,873
Other	55,648	1,037	10,025	46,660			46,660
	3,872,959	62,731	893,386	3,042,304			3,042,304
Mutual funds and stock	180,625	157		180,782			180,782
	\$ 4,053,584	\$ 62,888	\$ 893,386	\$ 3,223,086			\$ 3,223,086

(In thousands)	December 31, 2011						
	Amortized cost	Recognized in OCI <sup>1</sup>		Carrying value	Not recognized in OCI		Estimated fair value
		unrealized gains	Gross unrealized losses		Gross unrealized gains	Gross unrealized losses	

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

<b>Held-to-maturity</b>							
Municipal securities	\$ 564,468	\$	\$	\$ 564,468	\$ 8,807	\$ 1,083	\$ 572,192
<b>Asset-backed securities:</b>							
Trust preferred securities banks and insurance	262,853		40,546	222,307	207	78,191	144,323
Other	24,310		3,381	20,929	303	7,868	13,364
Other debt securities	100			100		5	95
	\$ 851,731	\$	\$ 43,927	\$ 807,804	\$ 9,317	\$ 87,147	\$ 729,974
<b>Available-for-sale</b>							
U.S. Treasury securities	\$ 4,330	\$ 304	\$	\$ 4,634			\$ 4,634
U.S. Government agencies and corporations:							
Agency securities	153,179	5,423	122	158,480			158,480
Agency guaranteed mortgage-backed securities	535,228	18,211	102	553,337			553,337
Small Business Administration loan-backed securities	1,153,039	12,119	4,496	1,160,662			1,160,662
Municipal securities	120,677	3,191	1,700	122,168			122,168
<b>Asset-backed securities:</b>							
Trust preferred securities banks and insurance	1,794,427	15,792	880,509	929,710			929,710
Trust preferred securities real estate investment trusts	40,259		21,614	18,645			18,645
Auction rate securities	71,338	164	1,482	70,020			70,020
Other	64,646	1,028	15,302	50,372			50,372
	3,937,123	56,232	925,327	3,068,028			3,068,028
Mutual funds and other	162,606	167	6	162,767			162,767
	\$ 4,099,729	\$ 56,399	\$ 925,333	\$ 3,230,795			\$ 3,230,795

<sup>1</sup> The gross unrealized losses recognized in OCI resulted from a previous transfer of AFS securities to HTM.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

The amortized cost and estimated fair value of investment debt securities are shown subsequently as of March 31, 2012 by expected maturity distribution for structured asset-backed collateralized debt obligations ( ABS CDOs ) and by contractual maturity distribution for other debt securities. Actual maturities may differ from expected or contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

(In thousands)	Held-to-maturity		Available-for-sale	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Due in one year or less	\$ 60,284	\$ 60,756	\$ 441,617	\$ 414,938
Due after one year through five years	200,100	198,165	1,098,717	1,001,431
Due after five years through ten years	176,697	156,520	741,375	641,147
Due after ten years	403,468	313,038	1,591,250	984,788
	\$ 840,549	\$ 728,479	\$ 3,872,959	\$ 3,042,304

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

(In thousands)	Less than 12 months		March 31, 2012 12 months or more		Total	
	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value
<b>Held-to-maturity</b>						
Municipal securities	\$ 287	\$ 8,471	\$ 555	\$ 18,711	\$ 842	\$ 27,182
Asset-backed securities:						
Trust preferred securities banks and insurance			116,060	147,151	116,060	147,151
Other			11,517	12,091	11,517	12,091
	\$ 287	\$ 8,471	\$ 128,132	\$ 177,953	\$ 128,419	\$ 186,424
<b>Available-for-sale</b>						
U.S. Government agencies and corporations:						
Agency securities	\$ 77	\$ 22,442	\$ 65	\$ 3,823	\$ 142	\$ 26,265
Agency guaranteed mortgage-backed securities	44	10,224	3	587	47	10,811
Small Business Administration loan-backed securities	576	106,460	2,416	262,749	2,992	369,209
Municipal securities	45	2,546	1,653	12,027	1,698	14,573
Asset-backed securities:						
Trust preferred securities banks and insurance	302	37,960	853,169	707,424	853,471	745,384
Trust preferred securities real estate investment trusts			24,300	16,001	24,300	16,001
Auction rate securities	129	10,007	582	16,824	711	26,831
Other			10,025	15,331	10,025	15,331
	\$ 1,173	\$ 189,639	\$ 892,213	\$ 1,034,766	\$ 893,386	\$ 1,224,405





**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

At March 31, 2012 and December 31, 2011, respectively, 64 and 72 held-to-maturity ( HTM ) and 423 and 525 available-for-sale ( AFS ) investment securities were in an unrealized loss position.

**Other-Than-Temporary Impairment**

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

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

Our 2011 Annual Report on Form 10-K describes in more detail our OTTI evaluation process. The following summarizes the conclusions from our OTTI evaluation for those security types that have significant gross unrealized losses at March 31, 2012:

**OTTI Asset-Backed Securities**

Trust preferred securities banks and insurance: These CDO securities are interests in variable rate pools of trust preferred securities related to banks and insurance companies ( collateral issuers ). They

---

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

are rated by one or more Nationally Recognized Statistical Rating Organizations ( NRSROs ), which are rating agencies registered with the Securities and Exchange Commission ( SEC ). They were purchased generally at par. The primary drivers that have given rise to the unrealized losses on CDOs with bank and insurance collateral are listed below:

- 1) Market yield requirements for bank CDO securities remain very high. The credit crisis resulted in significant utilization of both the unique five-year deferral option each collateral issuer maintains during the life of the CDO and the ability of junior CDO bonds to defer the payment of current interest. The resulting increase in the rate of return demanded by the market for trust preferred CDOs remains dramatically higher than the effective interest rates. All structured product fair values, including bank CDOs, deteriorated significantly during the credit crisis, generally reaching a low in mid-2009. Prices for some structured products, other than bank CDOs, have since rebounded as the crucial unknowns related to value became resolved and as trading increased in these securities. Unlike these other structured products, CDO tranches backed by bank trust preferred securities continue to have unresolved questions surrounding collateral behavior, specifically including, but not limited to, the future number, size and timing of bank failures, and of allowed deferrals and subsequent resumption of payment of contractual interest.
- 2) Structural features of the collateral make these CDO tranches difficult for market participants to model. The first feature unique to bank CDOs is the interest deferral feature previously discussed. During the credit crisis starting in 2008, certain banks within our CDO pools have exercised this prerogative. The extent to which these deferrals either transition to default or alternatively come current prior to the five-year deadline is extremely difficult for market participants to assess. Our CDO pools include banks which first exercised this deferral option in the second quarter of 2008. At March 31, 2012, 45 banks in our CDO pools had come current after a period of deferral, while 224 were deferring, but remained within the allowed deferral period.

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

- 3) Ratings are generally below-investment-grade for even some of the most senior tranches. Rating agency opinions can vary significantly on a CDO tranche. The presence of a below-investment-grade rating by even a single rating agency will severely limit the pool of buyers, which causes greater illiquidity and therefore most likely a higher implicit discount rate/lower price with regard to that CDO tranche.
- 4) There is a lack of consistent disclosure by each CDO s trustee of the identity of collateral issuers; in addition, complex structures make projecting tranche return profiles difficult for non-specialists in the product.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

5) At purchase, the expectation of cash flow variability was limited. As a result of the credit crisis, we have seen extreme variability of collateral performance both compared to expectations and between different pools. Our ongoing review of these securities determined that OTTI should be recorded for the three months ended March 31, 2012.

Trust preferred securities real estate investment trusts ( REITs ): These CDO securities are variable rate pools of trust preferred securities primarily related to REITs, and are rated by one or more NRSROs. They were purchased generally at par. Unrealized losses were caused mainly by severe deterioration in mortgage REITs and homebuilder credit in addition to the same factors previously discussed for banks and insurance CDOs. Based on our review, no OTTI for these securities was recorded for the three months ended March 31, 2012.

Other asset-backed securities: Most of these CDO securities were purchased in 2009 from Lockhart at their carrying values and then adjusted to fair value. Certain of these CDOs consist of ABS CDOs (also known as diversified structured finance CDOs). Unrealized losses since acquisition were caused mainly by deterioration in collateral quality and widening of credit spreads for asset backed securities. Based on our review, no OTTI for these securities was recorded for the three months ended March 31, 2012.

**OTTI U.S. Government Agencies and Corporations**

Small Business Administration ( SBA ) Loan-Backed Securities: These securities were generally purchased at premiums with maturities from five to 25 years and have principal cash flows guaranteed by the SBA. Because the decline in fair value is not attributable to credit quality, no OTTI for these securities was recorded for the three months ended March 31, 2012.

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

(In thousands)	Three Months Ended March 31, 2012			Three Months Ended March 31, 2011		
	HTM	AFS	Total	HTM	AFS	Total
Balance of credit-related OTTI at beginning of period	\$ (6,126)	\$ (314,860)	\$ (320,986)	\$ (5,357)	\$ (335,682)	\$ (341,039)
Additions recognized in earnings during the period:						
Credit-related OTTI previously recognized when there is no intent to sell and no requirement to sell before recovery of amortized cost basis <sup>1</sup>		(10,209)	(10,209)		(3,105)	(3,105)
Subtotal of amounts recognized in earnings		(10,209)	(10,209)		(3,105)	(3,105)
Reductions for securities sold during the period		16,853	16,853		26,434	26,434
Balance of credit-related OTTI at end of period	\$ (6,126)	\$ (308,216)	\$ (314,342)	\$ (5,357)	\$ (312,353)	\$ (317,710)

<sup>1</sup> Relates to additional impairment on securities previously impaired.

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

For those securities with credit-related OTTI recognized in the statement of income for the three months ended March 31, 2012 and 2011, any amounts of noncredit-related OTTI recognized in OCI are related to AFS securities.



**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

Nontaxable interest income on securities was \$4.8 million and \$5.8 million for the three months ended March 31, 2012 and 2011, respectively.

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

(In thousands)	Three Months Ended			
	March 31, 2012		March 31, 2011	
	Gross gains	Gross losses	Gross gains	Gross losses
Investment securities:				
Held-to-maturity	\$ 49	\$	\$ 46	\$
Available-for-sale	6,459	15,997	3,519	6,729
Other noninterest-bearing investments:				
Nonmarketable equity securities	9,203	58	1,068	171
	15,711	16,055	4,633	6,900
Net losses		\$ (344)		\$ (2,267)
Statement of income information:				
Net impairment losses on investment securities		\$ (10,209)		\$ (3,105)
Equity securities gains, net		9,145		897
Fixed income securities gains (losses), net		720		(59)
Net losses		\$ (344)		\$ (2,267)

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

Securities with a carrying value of \$1.2 billion at March 31, 2012 and \$1.5 billion at December 31, 2011 were pledged to secure public and trust deposits, advances, and for other purposes as required by law. Securities are also pledged as collateral for security repurchase agreements.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

## 5. LOANS AND ALLOWANCE FOR CREDIT LOSSES

*Loans and Loans Held for Sale*

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

(In thousands)	March 31, 2012	December 31, 2011
Loans held for sale	\$ 184,579	\$ 201,590
Commercial:		
Commercial and industrial	\$ 10,157,262	\$ 10,334,858
Leasing	393,916	379,709
Owner occupied	7,886,448	8,158,556
Municipal	440,747	441,241
<b>Total commercial</b>	<b>18,878,373</b>	<b>19,314,364</b>
Commercial real estate:		
Construction and land development	2,100,344	2,264,909
Term	8,069,966	7,883,434
<b>Total commercial real estate</b>	<b>10,170,310</b>	<b>10,148,343</b>
Consumer:		
Home equity credit line	2,167,099	2,187,428
1-4 family residential	3,874,533	3,921,216
Construction and other consumer real estate	316,257	305,873
Bankcard and other revolving plans	273,591	291,018
Other	223,312	225,540
<b>Total consumer</b>	<b>6,854,792</b>	<b>6,931,075</b>
<b>FDIC-supported loans</b>	<b>687,126</b>	<b>750,870</b>
<b>Total loans</b>	<b>\$ 36,590,601</b>	<b>\$ 37,144,652</b>

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

Loan balances are presented net of unearned income and fees, which amounted to \$128.7 million at March 31, 2012 and \$133.1 million at December 31, 2011.

Owner occupied and commercial real estate loans include unamortized premiums of approximately \$69.2 million at March 31, 2012 and \$73.4 million at December 31, 2011.

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



## Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Loans with a carrying value of approximately \$20.7 billion at March 31, 2012 and \$21.1 billion at December 31, 2011 have been made available for pledging at the Federal Reserve and various Federal Home Loan Banks as collateral for current and potential borrowings.

We sold loans totaling \$426 million and \$458 million for the three months ended March 31, 2012 and 2011, respectively, that were previously classified as loans held for sale. Amounts added to loans held for sale during these periods were \$408 million and \$434 million. Income from loans sold, excluding servicing, for these same periods was \$6.0 million and \$3.1 million.

---

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

*Allowance for Credit Losses*

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

*Allowance for Loan and Lease Losses*

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

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

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

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

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

Asset quality trends

Risk management and loan administration practices

Risk identification practices

Effect of changes in the nature and volume of the portfolio

Existence and effect of any portfolio concentrations

National economic and business conditions

16

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

Regional and local economic and business conditions

Data availability and applicability

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

*Reserve for Unfunded Lending Commitments*

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

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

(In thousands)	Three Months Ended March 31, 2012				
	Commercial	Commercial real estate	Consumer	FDIC-supported <sup>1</sup>	Total
<b>Allowance for loan losses:</b>					
Balance at beginning of period	\$ 627,825	\$ 275,546	\$ 123,115	\$ 23,472	\$ 1,049,958
Additions:					
Provision for loan losses	27,165	(12,139)	(48)	686	15,664
Adjustment for FDIC-supported loans				(1,057)	(1,057)
Deductions:					
Gross loan and lease charge-offs	(33,477)	(27,011)	(17,009)	(2,517)	(80,014)
Recoveries	9,656	12,348	3,043	461	25,508
Net loan and lease charge-offs	(23,821)	(14,663)	(13,966)	(2,056)	(54,506)
Balance at end of period	\$ 631,169	\$ 248,744	\$ 109,101	\$ 21,045	\$ 1,010,059
<b>Reserve for unfunded lending commitments:</b>					
Balance at beginning of period	\$ 77,232	\$ 23,572	\$ 1,618	\$	\$ 102,422
Provision charged (credited) to earnings	(5,230)	2,227	(701)		(3,704)
Balance at end of period	\$ 72,002	\$ 25,799	\$ 917	\$	\$ 98,718
<b>Total allowance for credit losses at end of period:</b>					
Allowance for loan losses	\$ 631,169	\$ 248,744	\$ 109,101	\$ 21,045	\$ 1,010,059
Reserve for unfunded lending commitments	72,002	25,799	917		98,718
Total allowance for credit losses	\$ 703,171	\$ 274,543	\$ 110,018	\$ 21,045	\$ 1,108,777



**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

	\$18,878,373	\$18,878,373	\$18,878,373	\$18,878,373	\$18,878,373
	<b>Three Months Ended March 31, 2011</b>				
(In thousands)	Commercial	Commercial real estate	Consumer	FDIC-supported <sup>1</sup>	Total
<b>Allowance for loan losses:</b>					
Balance at beginning of period	\$ 761,107	\$ 487,235	\$ 154,326	\$ 37,673	\$ 1,440,341
Additions:					
Provision for loan losses	(19,725)	61,862	15,956	1,907	60,000
Adjustment for FDIC-supported loans				(9,048)	(9,048)
Deductions:					
Gross loan and lease charge-offs	(59,383)	(73,380)	(26,321)	(8,884)	(167,968)
Net charge-offs recoverable from FDIC				4,534	4,534
Recoveries	12,091	4,797	4,149	904	21,941
Net loan and lease charge-offs	(47,292)	(68,583)	(22,172)	(3,446)	(141,493)
Balance at end of period	\$ 694,090	\$ 480,514	\$ 148,110	\$ 27,086	\$ 1,349,800
<b>Reserve for unfunded lending commitments:</b>					
Balance at beginning of period	\$ 83,352	\$ 26,373	\$ 1,983	\$	\$ 111,708
Provision charged (credited) to earnings	(8,923)	(73)	(544)		(9,540)
Balance at end of period	\$ 74,429	\$ 26,300	\$ 1,439	\$	\$ 102,168
<b>Total allowance for credit losses at end of period:</b>					
Allowance for loan losses	\$ 694,090	\$ 480,514	\$ 148,110	\$ 27,086	\$ 1,349,800
Reserve for unfunded lending commitments	74,429	26,300	1,439		102,168
Total allowance for credit losses	\$ 768,519	\$ 506,814	\$ 149,549	\$ 27,086	\$ 1,451,968

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

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

	\$18,878,373	\$18,878,373	\$18,878,373	\$18,878,373	\$18,878,373
	<b>March 31, 2012</b>				
(In thousands)	Commercial	Commercial real estate	Consumer	FDIC-supported	Total
<b>Allowance for loan losses:</b>					
Individually evaluated for impairment	\$ 31,115	\$ 16,437	\$ 9,634	\$ 563	\$ 57,749
Collectively evaluated for impairment	600,054	232,307	99,467	13,802	945,630
Purchased loans with evidence of credit deterioration				6,680	6,680
Total	\$ 631,169	\$ 248,744	\$ 109,101	\$ 21,045	\$ 1,010,059

Outstanding loan balances:

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Individually evaluated for impairment	\$ 383,848	\$ 572,479	\$ 104,527	\$ 2,086	\$ 1,062,940
Collectively evaluated for impairment	18,494,525	9,597,831	6,750,265	581,369	35,423,990
Purchased loans with evidence of credit deterioration				103,671	103,671
Total	\$ 18,878,373	\$ 10,170,310	\$ 6,854,792	\$ 687,126	\$ 36,590,601

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

	\$18,878,373	\$18,878,373	\$18,878,373	\$18,878,373	\$18,878,373
	<b>December 31, 2011</b>				
<b>(In thousands)</b>					
	<b>Commercial</b>	<b>Commercial real estate</b>	<b>Consumer</b>	<b>FDIC- supported</b>	<b>Total</b>
<b>Allowance for loan losses:</b>					
Individually evaluated for impairment	\$ 11,456	\$ 20,971	\$ 8,995	\$ 623	\$ 42,045
Collectively evaluated for impairment	616,369	254,575	114,120	16,830	1,001,894
Purchased loans with evidence of credit deterioration				6,019	6,019
<b>Total</b>	<b>\$ 627,825</b>	<b>\$ 275,546</b>	<b>\$ 123,115</b>	<b>\$ 23,472</b>	<b>\$ 1,049,958</b>
<b>Outstanding loan balances:</b>					
Individually evaluated for impairment	\$ 349,662	\$ 668,022	\$ 113,798	\$ 2,701	\$ 1,134,183
Collectively evaluated for impairment	18,964,702	9,480,321	6,817,277	637,962	35,900,262
Purchased loans with evidence of credit deterioration				110,207	110,207
<b>Total</b>	<b>\$ 19,314,364</b>	<b>\$ 10,148,343</b>	<b>\$ 6,931,075</b>	<b>\$ 750,870</b>	<b>\$ 37,144,652</b>

**Nonaccrual and Past Due Loans**

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

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

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



**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

Nonaccrual loans are summarized as follows:

(In thousands)	March 31, 2012	December 31, 2011
Loans held for sale	\$ 30	\$ 18,216
Commercial:		
Commercial and industrial	\$ 149,337	\$ 126,468
Leasing	1,343	1,546
Owner occupied	245,348	239,203
Municipal		
Total commercial	396,028	367,217
Commercial real estate:		
Construction and land development	147,640	219,837
Term	190,272	156,165
Total commercial real estate	337,912	376,002
Consumer:		
Home equity credit line	17,425	18,376
1-4 family residential	86,910	90,857
Construction and other consumer real estate	8,060	12,096
Bankcard and other revolving plans	537	346
Other	2,641	2,498
Total consumer loans	115,573	124,173
FDIC-supported loans	22,623	24,267
Total	\$ 872,136	\$ 891,659

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

(In thousands)	March 31, 2012					Accruing loans 90+ days past due	Nonaccrual loans that are current <sup>1</sup>
	Current	30-89 days past due	90+ days past due	Total past due	Total loans		
Loans held for sale	\$ 184,579	\$	\$	\$	\$ 184,579	\$	\$ 30
Commercial:							
Commercial and industrial	\$ 10,005,362	\$ 75,593	\$ 76,307	\$ 151,900	\$ 10,157,262	\$ 16,825	\$ 64,254
Leasing	393,061	783	72	855	393,916		1,234

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Owner occupied	7,679,180	81,076	126,192	207,268	7,886,448	13,837	101,876
Municipal	440,747				440,747		
<b>Total commercial</b>	<b>18,518,350</b>	<b>157,452</b>	<b>202,571</b>	<b>360,023</b>	<b>18,878,373</b>	<b>30,662</b>	<b>167,364</b>
Commercial real estate:							
Construction and land development	2,015,353	17,204	67,787	84,991	2,100,344	1,966	71,841
Term	7,921,052	49,320	99,594	148,914	8,069,966	3,182	78,243
<b>Total commercial real estate</b>	<b>9,936,405</b>	<b>66,524</b>	<b>167,381</b>	<b>233,905</b>	<b>10,170,310</b>	<b>5,148</b>	<b>150,084</b>
Consumer:							
Home equity credit line	2,151,906	5,979	9,214	15,193	2,167,099		4,888
1-4 family residential	3,793,501	27,789	53,243	81,032	3,874,533	727	28,982
Construction and other consumer real estate	311,639	2,041	2,577	4,618	316,257	184	5,153
Bankcard and other revolving plans	269,570	2,227	1,794	4,021	273,591	1,451	179
Other	220,139	1,004	2,169	3,173	223,312		294
<b>Total consumer loans</b>	<b>6,746,755</b>	<b>39,040</b>	<b>68,997</b>	<b>108,037</b>	<b>6,854,792</b>	<b>2,362</b>	<b>39,496</b>
<b>FDIC-supported loans</b>	<b>579,075</b>	<b>15,682</b>	<b>92,369</b>	<b>108,051</b>	<b>687,126</b>	<b>76,945</b>	<b>5,416</b>
<b>Total</b>	<b>\$ 35,780,585</b>	<b>\$ 278,698</b>	<b>\$ 531,318</b>	<b>\$ 810,016</b>	<b>\$ 36,590,601</b>	<b>\$ 115,117</b>	<b>\$ 362,360</b>

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

In addition to the past due and nonaccrual criteria, we also analyze loans using a loan grading system. We generally assign internal grades to loans with commitments less than \$500,000 based on the performance of those loans. Performance-based grades follow our definitions of Pass, Special Mention, Substandard, and Doubtful, which are consistent with published definitions of regulatory risk classifications.

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

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

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

## Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

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

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

We generally assign internal grades to commercial and commercial real estate loans with commitments equal

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

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

(In thousands)	March 31, 2012					Total loans	Total allowance
	Pass	Special Mention	Sub- standard	Doubtful			
Loans held for sale	\$ 183,963	\$ 30	\$ 586	\$	\$	\$ 184,579	\$
Commercial:							
Commercial and industrial	\$ 9,476,937	\$ 272,739	\$ 394,577	\$ 13,009		\$ 10,157,262	
Leasing	381,236	4,601	8,079			393,916	
Owner occupied	7,122,814	190,785	562,243	10,606		7,886,448	
Municipal	425,387	15,360				440,747	
Total commercial	17,406,374	483,485	964,899	23,615		18,878,373	\$ 631,169
Commercial real estate:							
Construction and land development	1,573,304	199,607	323,423	4,010		2,100,344	
Term	7,271,226	256,897	534,762	7,081		8,069,966	
Total commercial real estate	8,844,530	456,504	858,185	11,091		10,170,310	248,744
Consumer:							
Home equity credit line	2,114,658	101	52,296	44		2,167,099	
1-4 family residential	3,737,361	2,632	134,317	223		3,874,533	
Construction and other consumer real estate	289,848	12,058	12,699	1,652		316,257	
Bankcard and other revolving plans	261,711	3,593	8,287			273,591	
Other	217,801		5,511			223,312	
Total consumer loans	6,621,379	18,384	213,110	1,919		6,854,792	109,101
FDIC-supported loans	444,230	33,102	209,792	2		687,126	21,045
Total	\$ 33,316,513	\$ 991,475	\$ 2,245,986	\$ 36,627		\$ 36,590,601	\$ 1,010,059

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

**Impaired Loans**

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

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

Information on impaired loans individually evaluated is summarized as follows, including the average recorded investment and interest income recognized for the three months ended March 31, 2012 and 2011:

(In thousands)	March 31, 2012				
	Unpaid principal balance	Recorded investment		Total recorded investment	Related allowance
		with no allowance	with allowance		
<b>Commercial:</b>					
Commercial and industrial	\$ 232,638	\$ 60,627	\$ 116,854	\$ 177,481	\$ 24,219
Owner occupied	238,737	123,793	82,574	206,367	6,896
Total commercial	471,375	184,420	199,428	383,848	31,115
<b>Commercial real estate:</b>					
Construction and land development	303,480	146,158	88,335	234,493	5,108
Term	404,556	200,648	137,338	337,986	11,329
Total commercial real estate	708,036	346,806	225,673	572,479	16,437
<b>Consumer:</b>					
Home equity credit line	1,178	376	710	1,086	147
1-4 family residential	111,985	47,497	46,472	93,969	8,726
Construction and other consumer real estate	8,518	2,551	4,257	6,808	710
Other	2,685	1,223	1,441	2,664	51
Total consumer loans	124,366	51,647	52,880	104,527	9,634
FDIC-supported loans	237,124	25,888	79,869	105,757	7,243
Total	\$ 1,540,901	\$ 608,761	\$ 557,850	\$ 1,166,611	\$ 64,429

(In thousands)	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
<b>Commercial:</b>				
Commercial and industrial	\$ 178,428	\$ 888	\$ 210,610	\$ 563
Owner occupied	204,469	600	321,311	686
Municipal			1,983	
Total commercial	382,897	1,488	533,904	1,249
<b>Commercial real estate:</b>				
Construction and land development	257,194	1,562	583,756	1,424
Term	346,399	1,973	416,262	1,759
Total commercial real estate	603,593	3,535	1,000,018	3,183

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Consumer:				
Home equity credit line	1,280	1	1,956	
1-4 family residential	93,838	320	108,476	481
Construction and other consumer real estate	8,261	42	15,986	10
Bankcard and other revolving plans			52	
Other	2,771		3,725	
Total consumer loans	106,150	363	130,195	491
FDIC-supported loans	110,574	8,859 <sup>1</sup>	177,961	14,286 <sup>1</sup>
Total	\$ 1,203,214	\$ 14,245	\$ 1,842,078	\$ 19,209

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



**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	December 31, 2011				
	Unpaid principal balance	Recorded investment		Total recorded investment	Related allowance
	with no allowance	with allowance			
<b>Commercial:</b>					
Commercial and industrial	\$ 212,263	\$ 69,492	\$ 66,438	\$ 135,930	\$ 6,373
Owner occupied	258,173	135,555	78,177	213,732	5,083
Total commercial	470,436	205,047	144,615	349,662	11,456
<b>Commercial real estate:</b>					
Construction and land development	405,499	178,113	136,634	314,747	8,925
Term	414,998	187,345	165,930	353,275	12,046
Total commercial real estate	820,497	365,458	302,564	668,022	20,971
<b>Consumer:</b>					
Home equity credit line	1,955	384	1,469	1,853	411
1-4 family residential	116,498	58,392	39,960	98,352	7,555
Construction and other consumer real estate	13,340	4,537	6,188	10,725	1,026
Bankcard and other revolving plans					
Other	2,889	2,840	28	2,868	3
Total consumer loans	134,682	66,153	47,645	113,798	8,995
FDIC-supported loans	353,195	47,736	65,188	112,924	6,642
<b>Total</b>	<b>\$ 1,778,810</b>	<b>\$ 684,394</b>	<b>\$ 560,012</b>	<b>\$ 1,244,406</b>	<b>\$ 48,064</b>

**Modified and Restructured Loans**

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

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

TDRs are classified as either accrual or nonaccrual loans. A loan on nonaccrual and restructured as a TDR will remain on nonaccrual status until the borrower has proven the ability to perform under the modified structure for a minimum of six months, and there is evidence that such payments can and are likely to continue as agreed. Performance prior to the restructuring, or significant events that coincide with the restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual at the time of restructuring or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan. A TDR loan that specifies an interest rate that at the time of the restructuring is greater than



**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

or equal to the rate the bank is willing to accept for a new loan with comparable risk may not be reported as a TDR or an impaired loan in the calendar years subsequent to the restructuring if it is in compliance with its modified terms.

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

(In thousands)	March 31, 2012						Total
	Recorded investment resulting from the following modification types:						
	Interest rate below market	Maturity or term extension	Principal forgiveness	Payment deferral	Other <sup>1</sup>	Multiple modification types <sup>2</sup>	
<b>Accruing</b>							
Commercial:							
Commercial and industrial	\$ 288	\$ 5,988	\$	\$ 3,831	\$ 28,663	\$ 20,615	\$ 59,385
Owner occupied	1,334	14,560		5,739	4,350	10,354	36,337
<b>Total commercial</b>	<b>1,622</b>	<b>20,548</b>		<b>9,570</b>	<b>33,013</b>	<b>30,969</b>	<b>95,722</b>
Commercial real estate:							
Construction and land development	1,055	32,561			28,557	27,881	90,054
Term	1,897	22,803	3,011	24,879	23,922	88,933	165,445
<b>Total commercial real estate</b>	<b>2,952</b>	<b>55,364</b>	<b>3,011</b>	<b>24,879</b>	<b>52,479</b>	<b>116,814</b>	<b>255,499</b>
Consumer:							
Home equity credit line	194					28	222
1-4 family residential	2,297	1,945	1,065		6,269	36,002	47,578
Construction and other consumer real estate	159	411			654	1,309	2,533
<b>Total consumer loans</b>	<b>2,650</b>	<b>2,356</b>	<b>1,065</b>		<b>6,923</b>	<b>37,339</b>	<b>50,333</b>
<b>Total accruing</b>	<b>7,224</b>	<b>78,268</b>	<b>4,076</b>	<b>34,449</b>	<b>92,415</b>	<b>185,122</b>	<b>401,554</b>
<b>Nonaccruing</b>							
Commercial:							
Commercial and industrial	3,227	6,126	4,654	588	15,318	13,870	43,783
Leasing						249	249
Owner occupied	5,487	1,152	700	9,035	10,248	17,094	43,716
<b>Total commercial</b>	<b>8,714</b>	<b>7,278</b>	<b>5,354</b>	<b>9,623</b>	<b>25,566</b>	<b>31,213</b>	<b>87,748</b>
Commercial real estate:							
Construction and land development	24,970	8,906	11		16,092	32,136	82,115
Term	4,583	44		4,884	20,072	55,454	85,037
<b>Total commercial real estate</b>	<b>29,553</b>	<b>8,950</b>	<b>11</b>	<b>4,884</b>	<b>36,164</b>	<b>87,590</b>	<b>167,152</b>
Consumer:							
Home equity credit line						64	64
1-4 family residential	1,368	83	312		951	15,721	18,435
Construction and other consumer real estate	16	1,874				1,380	3,270

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Total consumer loans	1,384	1,957	312		951	17,165	21,769
Total nonaccruing	39,651	18,185	5,677	14,507	62,681	135,968	276,669
Total	\$ 46,875	\$ 96,453	\$ 9,753	\$ 48,956	\$ 155,096	\$ 321,090	\$ 678,223

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

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

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

Unused commitments to extend credit on TDRs amounted to approximately \$13 million at March 31, 2012 and \$9 million at December 31, 2011.

The total recorded investment of all TDRs in which interest rates were modified below market was \$183.8 million at March 31, 2012 and \$269.9 million at December 31, 2011. These loans are included in the previous table in the columns for interest rate below market and multiple modification types.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

(In thousands)	Three Months	
	Ended March 31, 2012	Year Ended December 31, 2011
<b>Commercial:</b>		
Commercial and industrial	\$ (15)	\$ (46)
Owner occupied	(377)	(1,650)
Total commercial	(392)	(1,696)
<b>Commercial real estate:</b>		
Construction and land development	(219)	(244)
Term	(1,546)	(7,096)
Total commercial real estate	(1,765)	(7,340)
<b>Consumer:</b>		
Home equity credit line	(15)	
1-4 family residential	(3,849)	(10,188)
Construction and other consumer real estate	(108)	(406)
Total consumer loans	(3,972)	(10,594)
Total decrease to interest income	\$ (6,129) <sup>1</sup>	\$ (19,630) <sup>1</sup>

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

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

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

(In thousands)	March 31, 2012			December 31, 2011		
	Accruing	Nonaccruing	Total	Accruing	Nonaccruing	Total
<b>Commercial:</b>						
Commercial and industrial	\$	\$ 249	\$ 249	\$ 35	\$ 1,700	\$ 1,735
Owner occupied		1,314	1,314		441	441
Total commercial		1,563	1,563	35	2,141	2,176

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Commercial real estate:							
Construction and land development						11,667	11,667
Term	1,555	1,555				5,971	5,971
Total commercial real estate	1,555	1,555				17,638	17,638
Consumer:							
1-4 family residential	526	526				2,745	2,745
Total consumer loans	526	526				2,745	2,745
Total			\$ 3,644	\$ 3,644	\$ 35	\$ 22,524	\$ 22,559

*Note: Total loans modified as TDRs during the 12 months previous to March 31, 2012 were \$276.2 million.*



## **Table of Contents**

### ZIONS BANCORPORATION AND SUBSIDIARIES

#### ***Concentrations of Credit Risk***

We perform an ongoing analysis of our loan portfolio to evaluate whether there is any significant exposure to an individual borrower or group(s) of borrowers as a result of any concentrations of credit risk. Such credit risks (whether on- or off-balance sheet) may occur when groups of borrowers or counterparties have similar economic characteristics and are similarly affected by changes in economic or other conditions. Credit risk also includes the loss that would be recognized subsequent to the reporting date if counterparties failed to perform as contracted. Our analysis as of March 31, 2012 concluded that no significant exposure exists from such credit risks. See Note 6 for a discussion of counterparty risk associated with the Company's derivative transactions.

#### ***Purchased Loans***

##### *Background and Accounting*

We purchase loans in the ordinary course of business and account for them and the related interest income based on their performing status at the time of acquisition. Purchased credit-impaired (PCI) loans have evidence of credit deterioration at the time of acquisition and it is probable that not all contractual payments will be collected. Interest income for PCI loans is accounted for on an expected cash flow basis. Certain other loans acquired by the Company that are not credit-impaired include loans with revolving privileges and are excluded from the PCI tabular disclosures following. Interest income for these loans is accounted for on a contractual cash flow basis. Certain acquired loans with similar characteristics such as risk exposure, type, size, etc., are grouped and accounted for in loan pools.

CB&T and NSB acquired failed banks from the FDIC as receiver and entered into loss sharing agreements with the FDIC for the acquired loans and foreclosed assets. The FDIC assumes 80% of credit losses up to a threshold specified for each acquisition and 95% above the threshold for a period of up to ten years. The loans acquired from the FDIC are presented separately in the Company's balance sheet as FDIC-supported loans, and include both PCI and certain other acquired loans.

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

Upon acquisition, in accordance with applicable accounting guidance, the acquired loans were recorded at their fair value without a corresponding ALLL. The acquired foreclosed assets and subsequent real estate foreclosures were included with other real estate owned (OREO) in the balance sheet and amounted to \$28.9 million at March 31, 2012 and \$24.3 million at December 31, 2011.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

*Outstanding Balances and Accrutable Yield*

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

(In thousands)	March 31, 2012	December 31, 2011
Commercial	\$ 307,357	\$ 321,515
Commercial real estate	486,519	556,197
Consumer	50,496	57,391
Outstanding balance	\$ 844,372	\$ 935,103
Carrying amount	\$ 619,664	\$ 672,159
ALLL	19,729	21,604
Carrying amount, net	\$ 599,935	\$ 650,555

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

Certain PCI loans are not accounted for as previously described because the estimation of cash flows to be collected involves a high degree of uncertainty. Under these circumstances, the accounting guidance provides that interest income is recognized on a cash basis similar to the cost recovery methodology for nonaccrual loans. The net carrying amounts in the preceding schedule also include the amounts for these loans, which were approximately \$39.4 million at March 31, 2012 and \$42.6 million at December 31, 2011.

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

(In thousands)	Three Months Ended March 31,	
	2012	2011
Balance at beginning of period	\$ 184,679	\$ 277,005
Accretion	(21,533)	(31,443)
Reclassification from nonaccrutable difference	13,869	23,392
Disposals and other	(3,011)	2,782
Balance at end of period	\$ 174,004	\$ 271,736

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

## Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

The primary driver of reclassifications to accretable yield from nonaccretable difference resulted from increases in estimated cash flows for the acquired loans and loan pools. The increased cash flows were due to the enhanced economic status of borrowers whose financial stresses were diminishing or were not as severe as originally evaluated. When these loans were originally acquired, the expected cash flows estimated from the valuations were based on a lower economic outlook and a lower performance expectation.

The majority of acquired loans relate to the Southern California market. At the time of acquisition of these loans, market prices for commercial real estate in this market were falling, many local banks that provided commercial real estate lending were failing, and the economic outlook was uncertain. Although the current

---

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

economy and commercial real estate prices in this market have not returned to pre-crisis levels, the improvements in the economy have begun to manifest themselves in the borrowers' ability to repay their loans.

Additionally, our credit officers and loan workout professionals assigned to these loans have been effective in resolving problem loans so that the maximum amounts possible, up to the full contractual amounts, are repaid. The efforts of these professionals and the aforementioned economic improvements have resulted in higher than initially expected cash flows and fair values for the acquired loans. These improvements resulted in the balance reclassification from nonaccretable difference to accretable yield.

*ALLL Determination*

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

During the three months ended March 31, 2012 and 2011, we adjusted the ALLL for acquired loans by recording a (decrease) increase on an adjusted gross basis to the provision for loan losses of \$(0.4) million in 2012 and \$1.9 million in 2011. These amounts are net of the ALLL reversals due to increases in estimated cash flows which are discussed subsequently. As separately discussed and in accordance with the loss sharing agreements, portions of the increases to the provision are recoverable from the FDIC and comprise part of the FDIC IA. Charge-offs, net of recoveries and before FDIC indemnification, were \$1.1 million and \$3.4 million for the three months ended March 31, 2012 and 2011, respectively.

Changes in the provision for loan losses and related ALLL are driven in large part by the same factors discussed previously for the changes in reclassification from nonaccretable difference to accretable yield.

*Changes in Cash Flow Estimates*

Over the life of the loan or loan pool, we continue to estimate cash flows expected to be collected. We evaluate at the balance sheet date whether the estimated present value of these loans using the effective interest rates has decreased below their carrying value, and if so, we record a provision for loan losses. The present value of any subsequent increase in these loans' actual or expected cash flows is used first to reverse any existing ALLL. For the three months ended March 31, 2012 and 2011, total reversals to the ALLL, including the impact of increases in estimated cash flows, were \$2.7 million and \$4.2 million, respectively.

For loans or loan pools with no remaining ALLL, or where an ALLL was never established, that have increases in cash flows expected to be collected, we increase the amount of accretable yield on a prospective basis over the remaining life of the loan and recognize this increase in interest income. Any related decrease to the FDIC IA is recorded through a charge to other noninterest expense.

The impact of increased cash flows for acquired loans with no ALLL was approximately \$13.2 million and \$19.2 million of additional interest income for the three months ended March 31, 2012 and 2011, respectively, and \$10.0 million and \$13.1 million of additional noninterest expense for the three months ended March 31, 2012 and 2011, respectively.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

*FDIC Indemnification Asset*

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

Changes in the FDIC IA were as follows:

(In thousands)

	Three Months Ended March 31,	
	2012	2011
Balance at beginning of period	\$ 133,810	\$ 195,516
Amounts filed with the FDIC and collected or in process	(1,293)	(6,507)
Net change in asset balance due to reestimation of projected cash flows <sup>1</sup>	(11,185)	(16,839)
Balance at end of period	\$ 121,332	\$ 172,170

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

<sup>1</sup> *Negative amounts result from the accretion of loan balances based on increases in cash flow estimates on the underlying indemnified loans. Any changes to the FDIC IA are recognized immediately in the quarterly period the change in estimated cash flows is determined. All claims submitted to the FDIC have been reimbursed in a timely manner.*

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

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

We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows on the derivative hedging instrument with the changes in fair value or cash flows on the designated hedged item or transaction. For derivatives not designated as accounting hedges, changes in fair value are recognized in earnings.

Our objectives in using derivatives are to add stability to interest income or expense, to modify the duration of specific assets or liabilities as we consider advisable, to manage exposure to interest rate movements or other identified risks, and/or to directly offset derivatives sold to our customers. To accomplish these objectives, we use interest rate swaps as part of our cash flow hedging strategy. These derivatives are used to hedge the variable cash flows associated with designated commercial loans.

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

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

(In thousands)	March 31, 2012 Fair value			December 31, 2011 Fair value		
	Notional amount	Other assets	Other liabilities	Notional amount	Other assets	Other liabilities
<b>Derivatives designated as hedging instruments</b>						
Asset derivatives						
Cash flow hedges <sup>1</sup> :						
Interest rate swaps	\$ 200,000	\$ 4,779	\$	\$ 335,000	\$ 7,341	\$
<b>Total derivatives designated as hedging instruments</b>	<b>200,000</b>	<b>4,779</b>		<b>335,000</b>	<b>7,341</b>	
<b>Derivatives not designated as hedging instruments</b>						
Interest rate swaps	120,238	1,697	1,712	145,388	1,952	1,977
Interest rate swaps for customers <sup>2</sup>	2,573,092	74,419	77,965	2,638,601	82,648	87,363
Basis swaps				85,000	3	11
Futures contracts	3,000					
Options contracts				1,700,000	11	
Total return swap	1,159,686		5,218	1,159,686		5,422
<b>Total derivatives not designated as hedging instruments</b>	<b>3,856,016</b>	<b>76,116</b>	<b>84,895</b>	<b>5,728,675</b>	<b>84,614</b>	<b>94,773</b>
<b>Total derivatives</b>	<b>\$ 4,056,016</b>	<b>\$ 80,895</b>	<b>\$ 84,895</b>	<b>\$ 6,063,675</b>	<b>\$ 91,955</b>	<b>\$ 94,773</b>

(In thousands)	Three Months Ended March 31, 2012 Amount of derivative gain (loss) recognized/reclassified				Three Months Ended March 31, 2011 Amount of derivative gain (loss) recognized/reclassified			
	OCI	Reclassified from AOCI to interest income	Noninterest income (expense)	Offset to interest expense	OCI	Reclassified from AOCI to interest income	Noninterest income (expense)	Offset to interest expense
<b>Derivatives designated as hedging instruments</b>								
Asset derivatives								
Cash flow hedges <sup>1</sup> :								
Interest rate swaps	\$ 211	\$ 5,294			\$ 18	\$ 12,440		
Interest rate floors					4	797		
	211	5,294 <sup>3</sup>	\$		22	13,237 <sup>3</sup>	\$	
<b>Liability derivatives</b>								
Fair value hedges:								
Terminated swaps on long-term debt				\$ 750				\$ 719
<b>Total derivatives designated as hedging instruments</b>	<b>211</b>	<b>5,294</b>		<b>750</b>	<b>22</b>	<b>13,237</b>		<b>719</b>

Derivatives not designated as hedging instruments									
Interest rate swaps			(132)					(63)	
Interest rate swaps for customers <sup>2</sup>			1,390					1,532	
Energy commodity swaps for customers <sup>2</sup>								56	
Basis swaps			18					87	
Futures contracts			(24)					(759)	
Options contracts								1,023	
Total return swap			(5,450)						
Total derivatives not designated as hedging instruments			(4,198)					1,876	
Total derivatives	\$ 211	\$ 5,294	\$ (4,198)	\$ 750	\$ 22	\$ 13,237	\$ 1,876	\$ 719	

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

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

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



---

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

<sup>3</sup> *Amounts for the three months ended March 31, 2012 and 2011 of \$5,294 and \$13,237, respectively, are the amounts of reclassification to earnings presented in the tabular changes of AOCI in Note 7.*

At March 31, the fair values of derivative assets and liabilities were reduced (increased) by net credit valuation adjustments of \$3.5 million and \$(0.1) million in 2012, and \$2.7 million and \$(0.1) million in 2011, respectively. These adjustments are required to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk.

Fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) have been offset against recognized fair value amounts of derivatives executed with the same counterparty under a master netting arrangement. In the balance sheet, cash collateral was used to reduce recorded amounts of derivative assets and liabilities by \$0 and \$2.1 million at March 31, 2012, and \$0 and \$1.9 million at March 31, 2011, respectively.

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

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

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

Amounts in AOCI are reclassified to interest income as interest is earned on variable rate loans and as amounts for terminated hedges are accreted or amortized to earnings. For the 12 months following March 31, 2012, we estimate that an additional \$9 million will be reclassified.

***Total Return Swap***

On July 28, 2010, we entered into a total return swap and related interest rate swaps ( TRS ) with Deutsche Bank AG ( DB ) relating to a portfolio of \$1.16 billion notional amount of our bank and insurance trust preferred CDOs. As a result of the TRS, DB assumed all of the credit risk of this CDO portfolio, providing timely payment of all scheduled payments of interest and principal when contractually due to the Company (without regard to acceleration or deferral events). The transaction reduced regulatory risk-weighted assets and improved the Company's risk-based capital ratios.

The transaction did not qualify for hedge accounting and did not change the accounting for the underlying securities, including the quarterly analysis of OTTI and OCI. As a result, future potential OTTI, if any, associated with the underlying securities may not be offset by any valuation adjustment on the swap in the quarter in which OTTI is recognized, and OTTI changes could result in reductions in our regulatory capital ratios, which could be material.

The fair value of the TRS derivative liability was \$5.2 million at March 31, 2012 and \$5.4 million at December 31, 2011.

Both the fair values of the securities and the fair value of the TRS are dependent upon the projected credit-adjusted cash flows of the securities. The period that we are unable to cancel the transaction has shortened to

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

and will remain at one calendar quarter. Accordingly, absent major changes in these projected cash flows, we expect the value of the TRS liability to continue to approximate its March 31, 2012 fair value. We expect to incur subsequent net quarterly costs of approximately \$5.3 million under the TRS, including related interest rate swaps and scheduled payments of interest on the underlying CDOs, as long as the TRS remains in place for this CDO portfolio. Our estimated quarterly expense amount would be impacted by, among other things, changes in the composition of the CDO portfolio included in the transaction and changes over time in the forward London Interbank Offered Rate ( LIBOR ) rate curve. The Company's costs are also subject to adjustment in the event of future changes in regulatory requirements applicable to DB if we do not then elect to terminate the transaction. Termination by the Company for such regulatory changes applicable to DB will result in no payment by the Company.

At March 31, 2012, we completed a valuation process which resulted in an estimated fair value for the TRS under Level 3. The process utilized valuation inputs from two sources:

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

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

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

## 7. DEBT AND SHAREHOLDERS' EQUITY

### ***TARP Redemption***

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

Among other things, our Capital Plan includes the following provisions: (1) completing the entire redemption in 2012 of our TARP preferred stock with the second \$700 million installment contingent upon specified conditions requiring regulatory approval, including Parent liquidity and other requirements; (2) issuing a total of \$600 million in senior debt (see debt issuances discussion following; a total of \$400 million has been issued as of May 1, 2012); (3) redeeming on a timely basis the Company's \$254.9 million variable rate senior medium-term notes due at maturity in June 2012; and (4) not changing in 2012 the current common stock dividend of \$0.01 per share per quarter. There is no requirement to issue common or preferred equity. See subsequent discussion regarding the issuance of Series F preferred stock and the redemption of Series E preferred stock.

The TARP redemption accelerated the amortization of approximately \$19.6 million of unamortized discount. This discount was based on the fair value originally estimated for the common stock warrant associated with the TARP preferred stock issuance. The discount was being accreted to preferred stock over five years using

## **Table of Contents**

### ZIONS BANCORPORATION AND SUBSIDIARIES

the interest method with a corresponding adjustment to preferred stock dividends. During the three months ended March 31, 2012, preferred stock and preferred stock dividends were increased by this accelerated amortization and preferred stock was reduced by \$700 million.

#### ***Debt Issuances***

On March 27, 2012, we issued \$300 million of 4.5% senior unsecured medium-term notes due March 27, 2017. The notes were sold at a price of 94.25% through an online modified Dutch auction administered by Zions Direct. Net of commissions and fees, the net proceeds to the Company were \$280.5 million.

On May 1, 2012, we issued an additional \$100 million of the 4.5% senior notes at a price of 100.25% through a similar auction process administered by Zions Direct. Net proceeds to the Company were \$99.9 million.

During the three months ended March 31, 2012, we issued a short-term senior medium-term note of \$5.0 million and a long-term senior medium-term note of \$50.0 million. The short-term note matures March 2013 at an interest rate of 2.0%. The long-term note matures February 2014 at an interest rate of 3.5%. During this same period, we redeemed at maturity the same total of these notes, which were both short-term senior medium term notes.

#### ***Subordinated Debt Conversions***

During the three months ended March 31, 2012, \$29.8 million of convertible subordinated debt was converted into depositary shares each representing a 1/40<sup>th</sup> interest in a share of the Company's preferred stock. This conversion added 29,404 shares of Series C and 370 shares of Series A to the Company's preferred stock. In connection with this conversion, the \$34.8 million added to preferred stock included the transfer from common stock of \$5.1 million of the intrinsic value of the beneficial conversion feature. The amount of this conversion feature was included with common stock at the time of the debt modification. The remaining balance in common stock of this conversion feature was approximately \$86.8 million at March 31, 2012. Accelerated discount amortization on the converted debt increased interest expense for the three months ended March 31, 2012 by approximately \$12.2 million. At March 31, 2012, the balance at par of the convertible subordinated debt was \$517.6 million and the remaining balance of the convertible debt discount was \$200.8 million.

As of April 18, 2012, holders of approximately \$50.2 million of subordinated convertible notes elected to convert their debt into depositary shares of the Company's preferred stock. This anticipated conversion will add 50,192 shares of Series C to the Company's preferred stock.

#### ***Preferred Stock Issuance and Redemption***

On May 7, 2012, we sold \$143.75 million of Series F Fixed-Rate Non-Cumulative Perpetual Preferred Stock through an online auction. The issuance was in the form of depositary shares with each depositary share representing a 1/40<sup>th</sup> ownership interest in a share of the preferred stock. The shares are registered with the SEC and qualify as Tier 1 capital. Dividends are paid at a fixed rate of 7.9% on the 15<sup>th</sup> day of March, June September, and December. We intend to use the proceeds to redeem on the June 15, 2012 call date all of our Series E preferred stock that had been issued for \$142.5 million at a fixed dividend rate of 11%.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

**Changes in Accumulated Other Comprehensive Income**

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

(In thousands)	Net unrealized gains (losses) on investments and retained interests	Net unrealized gains (losses) on derivative instruments	Pension and post- retirement	Total
<b>Three Months Ended March 31, 2012:</b>				
Balance at December 31, 2011	\$ (546,763)	\$ 9,404	\$ (54,725)	\$ (592,084)
<b>Other comprehensive income (loss), net of tax:</b>				
Net realized and unrealized holding gains, net of income tax expense of \$13,967	22,614			22,614
Reclassification for net losses included in earnings, net of income tax benefit of \$3,691	5,798			5,798
Noncredit-related impairment losses on securities not expected to be sold, net of income tax benefit of \$3,085	(4,980)			(4,980)
Accretion of securities with noncredit-related impairment losses not expected to be sold, net of income tax expense of \$102	165			165
Net unrealized losses, net of reclassification to earnings of \$5,294 and income tax benefit of \$2,004		(3,080)		(3,080)
<b>Other comprehensive income (loss)</b>	<b>23,597</b>	<b>(3,080)</b>		<b>20,517</b>
Balance at March 31, 2012	\$ (523,166)	\$ 6,324	\$ (54,725)	\$ (571,567)
<b>Three Months Ended March 31, 2011:</b>				
Balance at December 31, 2010	\$ (456,264)	\$ 30,702	\$ (35,734)	\$ (461,296)
<b>Other comprehensive income (loss), net of tax:</b>				
Net realized and unrealized holding losses, net of income tax benefit of \$19,677	(31,788)			(31,788)
Reclassification for net losses included in earnings, net of income tax benefit of \$1,210	1,954			1,954
Accretion of securities with noncredit-related impairment losses not expected to be sold, net of income tax expense of \$16	26			26
Net unrealized losses, net of reclassification to earnings of \$13,237 and income tax benefit of \$5,156		(8,059)		(8,059)
<b>Other comprehensive loss</b>	<b>(29,808)</b>	<b>(8,059)</b>		<b>(37,867)</b>
Balance at March 31, 2011	\$ (486,072)	\$ 22,643	\$ (35,734)	\$ (499,163)

**8. INCOME TAXES**

The income tax expense rate for the three months ended March 31, 2012 was benefited by the nontaxability of certain income items. The income tax expense rate for the three months ended March 31 was more impacted in 2011 than in 2012 by the nondeductibility of a portion of the

accelerated discount amortization from the conversion of subordinated debt to preferred stock.

The balance of net deferred tax assets was approximately \$476 million at March 31, 2012 and \$509 million at December 31, 2011. We evaluate the net deferred tax assets on a regular basis to determine whether an additional valuation allowance is required. Based on this evaluation, and considering the weight of the positive evidence compared to the negative evidence, we have concluded that an additional valuation allowance is not required as of March 31, 2012.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

## 9. FAIR VALUE

*Fair Value Measurements*

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This new accounting guidance under ASC 820, *Fair Value Measurement*, provides convergence to IFRS and amends fair value measurement and disclosure guidance. Among other things, new disclosures are required for qualitative information and sensitivity analysis regarding Level 3 measurements. We adopted this new guidance effective January 1, 2012 as required and have incorporated it into the following disclosures.

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

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

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

Level 3 Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data. This category generally includes municipal securities; private equity investments, most CDO securities, and the total return swap.

We use fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure for accounting. This is done primarily for AFS and trading investment securities; private equity investments; securities sold, not yet purchased; and derivatives. Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as for loans held for sale, impaired loans, and OREO. Fair value is also used when evaluating impairment on certain assets, including HTM and AFS securities, goodwill, core deposit and other intangibles, long-lived assets, and for disclosures of certain financial instruments.

*Utilization of Third Party Service Providers*

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

For AFS Level 2 securities, we use a third party pricing service to provide pricing, if available, for securities in the following reporting categories: U.S. Treasury, agencies and corporations (except

---

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

Federal Agricultural Mortgage Corporation ( FAMC ) securities); municipal securities; trust preferred banks and insurance; and other (including ABS CDOs). At March 31, 2012, the fair value of AFS Level 2 securities for which we obtained pricing from the third party pricing service in these reporting categories amounted to approximately \$1.9 billion of the \$2.0 billion total of AFS Level 2 securities.

For AFS Level 3 securities, we use other third party service providers to provide pricing, if available, for securities in the following reporting categories: trust preferred banks and insurance, trust preferred real estate investment trusts, auction rate, and other (including ABS CDOs). At March 31, 2012, the fair value of AFS Level 3 securities for which we obtained pricing from these third party service providers in these reporting categories amounted to approximately \$88 million of the \$1.1 billion total of AFS Level 3 securities. In addition, the fair values for approximately \$914 million at March 31, 2012 of our AFS Level 3 securities were determined utilizing a licensed internal third party model. See trust preferred CDO internal model discussed subsequently.

Fair values of the remaining AFS Level 2 and Level 3 securities not valued by pricing from third party services or the licensed internal third party model were determined by us using market corroborative data. At March 31, 2012, the Level 2 securities consisted of approximately \$139 million of FAMC securities and \$5 million of mutual funds and stock, and the Level 3 securities consisted of \$17 million of municipal securities and \$31 million of ABS CDOs. Estimation of the fair values of the FAMC securities included the use of a standard mortgage pass-through calculator that incorporates discounted cash flows, while the municipal securities included the use of a standard form discounted cash flow model with certain inputs adjusted for market conditions.

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

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

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

*Available-for-Sale and Trading*

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

---

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

*U.S. Treasury, Agencies and Corporations*

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

*Municipal Securities*

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

*Trust Preferred Collateralized Debt Obligations*

Substantially all of the CDO portfolio is fair valued under Level 3 using an income-based cash flow modeling approach incorporating several methodologies that primarily include internal and third party models.

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

Approximately 30% of the bank issuers are public companies included in a third party proprietary reduced form model. The model generates PDs using equity valuation-related inputs along with other macro and issuer-specific inputs.

We use a floor PD of 30 basis points ( bps ) for years one through five for collateral where the higher of the one-year PDs from our ratio based approach and those from the third party proprietary reduced form model would be lower. The short-term 30 bps PD is similar to the PD we would apply if we had direct lending exposures to CDO pool collateral. We use a floor PD of 48 bps each year from years two to five smoothing the step-up to reach a 65 bps minimum PD for year six. We utilize a minimum PD for years six to maturity of 65 bps for bank collateral.

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

We utilize a present value technique to identify both the OTTI present in the CDO tranches and to estimate fair value. To determine the credit-related portion of OTTI in accordance with applicable accounting guidance, we use the security specific effective interest rate when estimating the present value of cash flows. We discount the credit-adjusted cash flow of each CDO tranche at a tranche-specific discount rate which reflects the risk that the actual cash flow may vary from the expected



**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

credit-adjusted cash flow for that CDO tranche. This rate is consistent with market participants' assumptions, which include market illiquidity, and is applied to credit-adjusted cash flows. We follow applicable guidance on illiquid markets such that risk premiums should be reflective of an orderly transaction between market participants under current market conditions. Because these securities are not traded on exchanges and trading prices are not posted on the TRACE<sup>®</sup> system (Trade Reporting and Compliance Engine<sup>®</sup>), we also seek information from market participants to obtain trade price information.

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

Our March 31, 2012 valuations for bank and insurance tranches utilized a discount rate range of LIBOR + 3.75% for the highest quality/most over-collateralized insurance-only tranches and LIBOR + 33.9% for the lowest credit quality tranche, which included bank collateral, in order to reflect market level assumptions for structured finance securities. For tranches that include bank collateral, the discount rate was at least LIBOR + 6.3% for the highest quality/most over-collateralized tranches. These discount rates are applied to already credit-adjusted cash flows for each tranche. The range of the projected cumulative credit loss of the CDO pools varies extensively across pools, and at March 31, 2012, ranged between 11.7% and 66.2%.

CDO tranches with greater uncertainty in their cash flows are discounted at higher rates than those that market participants would use for tranches with more stable expected cash flows (e.g., as a result of more subordination and/or better credit quality in the underlying collateral). The high end of the discount rate spectrum was applied to tranches in which minor changes in default assumption timing produced substantial deterioration in tranche cash flows. These discount rates are applied to credit-adjusted cash flows, which constitute each tranche's expected cash flows; discount rates are not applied to a hypothetical contractual cash flow.

At March 31, 2012, the discount rates utilized for fair value purposes for tranches that include bank collateral were:

- 1) LIBOR + 6.3% to 7.3% and averaged LIBOR + 6.5% for first priority original AAA-rated bonds;
- 2) LIBOR + 6.3% to 8.3% and averaged LIBOR + 6.8% for lower priority original AAA-rated bonds;
- 3) LIBOR + 6.7% to 30.2% and averaged LIBOR + 15.7% for original A-rated bonds; and
- 4) LIBOR + 13.9% to 33.9% and averaged LIBOR + 28.6% for original BBB-rated bonds.

Accordingly, the wide difference between the effective interest rate used in the determination of the credit component of OTTI and the discount rate on the CDOs used in the determination of fair value

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

results in the unrealized losses. The discount rate used for fair value purposes significantly exceeds the effective interest rate for the CDOs. The differences average approximately 6% for the original AAA-rated CDO tranches, 14% for the original A-rated CDO tranches, and 26% for the original BBB-rated CDO tranches. With the exception of certain of the most senior CDOs, most of the principal payments are not expected prior to the final maturity date, which is generally 2029 or later. High market discount rates and the long maturities of the CDO tranches result in full principal repayment contributing little to CDO tranche fair values.

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

*Auction Rate Securities*

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

*Private Equity Investments*

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

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

*Derivatives*

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

*Securities Sold, Not Yet Purchased*

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

*Quantitative Disclosure of Fair Value Measurements*

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

(In thousands)	March 31, 2012			Total
	Level 1	Level 2	Level 3	
<b>ASSETS</b>				
Investment securities:				
Available-for-sale:				
U.S. Treasury, agencies and corporations	\$ 3,102	\$ 1,879,900		\$ 1,883,002
Municipal securities		102,431	\$ 17,109	119,540
Asset-backed securities:				
Trust preferred banks and insurance		359	935,870	936,229
Trust preferred real estate investment trusts			16,000	16,000
Auction rate			40,873	40,873
Other (including ABS CDOs)		6,338	40,322	46,660
Mutual funds and stock	175,284	5,498		180,782
	178,386	1,994,526	1,050,174	3,223,086
Trading account		19,033		19,033
Other noninterest-bearing investments:				
Private equity		5,348	134,746	140,094
Other assets:				
Derivatives:				
Interest rate related and other		7,075		7,075
Interest rate swaps for customers		74,419		74,419
Foreign currency exchange contracts	4,140			4,140
	4,140	81,494		85,634
	\$ 182,526	\$ 2,100,401	\$ 1,184,920	\$ 3,467,847
<b>LIABILITIES</b>				
Securities sold, not yet purchased	\$ 41,743	\$ 5,661		\$ 47,404
Other liabilities:				
Derivatives:				
Interest rate related and other				
Interest rate swaps for customers		77,576		77,576
Foreign currency exchange contracts	3,339			3,339
Total return swap			\$ 5,218	5,218
	3,339	77,576	5,218	86,133
Other			205	205

\$ 45,082    \$ 83,237    \$ 5,423    \$ 133,742

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

*Key Model Inputs and Assumptions*

Key model unobservable input assumptions used to fair value certain asset-backed securities by class under Level 3 include the following at March 31, 2012:

(Dollars in thousands)	Fair value at March 31, 2012	Valuation approach	Constant default	Loss severity	Prepayment rate
------------------------	------------------------------------	-----------------------	---------------------	------------------	-----------------

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

rate ( CDR )

Asset-backed securities:						
Trust preferred	predominantly banks	\$ 773,119	Income	Pool specific <sup>3</sup>	100%	Pool specific <sup>7</sup>
Trust preferred	predominantly insurance	292,471	Income	Pool specific <sup>4</sup>	100%	4.5% per year
Trust preferred	individual banks	17,737	Market			
		1,083,327 <sup>1</sup>				
Trust preferred	real estate investment trusts	16,000	Income	Pool specific <sup>5</sup>	60-100%	0% per year
Other (including ABS CDOs)		53,462 <sup>2</sup>	Income	Collateral specific <sup>6</sup>	70-100%	Collateral weighted average life

<sup>1</sup> Includes \$935.9 million of AFS securities and \$147.4 million of HTM securities.

<sup>2</sup> Includes \$40.3 million of AFS securities and \$13.2 million of HTM securities.

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

<sup>3</sup> CDR ranges: yr 1 0.30% to 5.67%; yrs 2-5 0.45% to 0.65%; yrs 6 to maturity 0.58% to 0.70%.

<sup>4</sup> CDR ranges: yr 1 0.30% to 0.45%; yrs 2-5 0.47% to 0.49%; yrs 6 to maturity 0.50% to 0.54%.

<sup>5</sup> CDR ranges: yr 1 5.3% to 8.4%; yrs 2-3 3.9% to 5.0%; yrs 4-6 1.0%; yrs 6 to maturity 0.50%.

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

<sup>7</sup> Constant Prepayment Rate ( CPR ) ranges: 3.0% to 23.84% annually until 2016; 2016 to maturity 3.0% annually.

The fair value of the Level 3 bank and insurance CDO portfolio would generally be adversely affected by significant increases in the constant default rate for performing collateral, the loss percentage expected from deferring collateral, and the discount rate used. The fair value of the portfolio would generally be positively affected by increases in interest rates and prepayment rates. For a specific tranche within a CDO, the directionality of the fair value change for a given assumption change, may differ depending on the seniority level of the tranche. For example, faster prepayment may increase the fair value of a senior most tranche of a CDO while decreasing the fair value of a more junior tranche.

The following presents the percentage of total fair value of predominantly bank trust preferred CDOs by vintage year (origination date) according to original rating:

(Dollars in thousands)

Vintage year	Fair value at March 31, 2012	Percentage of total fair value according to original rating			Percentage of total fair value by vintage
		AAA	A	BBB	
2001	\$ 55,426	6.0%	1.1%	0.1%	7.2%
2002	236,179	28.1	2.5		30.6
2003	272,312	25.5	9.7		35.2
2004	123,861	7.5	8.5		16.0
2005	11,793	0.9	0.6		1.5
2006	39,566	2.8	2.1	0.2	5.1
2007	33,982	4.4			4.4
	\$ 773,119	75.2%	24.5%	0.3%	100.0%

*Reconciliation of Level 3 Fair Value Measurements*

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

(In thousands)	Level 3 Instruments Three Months Ended March 31, 2012							Other liabilities
	Municipal securities	Trust preferred banks and insurance	Trust preferred REIT	Auction rate	Other asset-backed	Private equity investments	Derivatives	
Balance at December 31, 2011	\$ 17,381	\$ 929,356	\$ 18,645	\$ 70,020	\$ 43,546	\$ 128,348	\$ (5,422)	\$ (86)
Total net gains (losses) included in:								
Statement of income:								
Accretion of purchase discount on securities available-for-sale	43	2,553	40	1	80			
Dividends and other investment income						1,739		

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Equity securities gains, net									9,461
Fixed income securities gains (losses), net	4,552			1,888		(5,773)			
Net impairment losses on investment securities		(10,209)							
Other noninterest expense									(119)
Other comprehensive income (loss)	(40)	30,199	(2,685)	789	5,314				
Purchases									2,982
Sales									(5,654)
Redemptions and paydowns	(275)	(20,581)		(31,825)	(2,845)	(2,130)		204	
Balance at March 31, 2012	\$ 17,109	\$ 935,870	\$ 16,000	\$ 40,873	\$ 40,322	\$ 134,746	\$ (5,218)	\$ (205)	



**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	Level 3 Instruments							
	Three Months Ended March 31, 2011							
	Municipal securities	Trust preferred banks and insurance	Trust preferred REIT	Auction rate	Other asset-backed	Private equity investments	Derivatives	Other liabilities
Balance at December 31, 2010	\$ 22,289	\$ 1,241,694	\$ 19,165	\$ 109,609	\$ 69,630	\$ 141,690	\$ (15,925)	\$ (561)
Total net gains (losses) included in:								
Statement of income:								
Accretion of purchase discount on securities available-for-sale	169	1,477		8	39			
Dividends and other investment income						707		
Equity securities gains, net						897		
Fixed income securities gains (losses), net	18	3,468	(3,605)	7	7			
Net impairment losses on investment securities		(1,820)	(1,285)					
Other noninterest expense								119
Other comprehensive income (loss)	(299)	(51,041)	5,977	(20)	1,324			
Purchases						3,333		
Sales	(895)	(941)	(538)	(135)		(3,277)		
Redemptions and paydowns	(2,225)	(8,838)		(225)	(1,513)	(803)	5,414	
Balance at March 31, 2011	\$ 19,057	\$ 1,183,999	\$ 19,714	\$ 109,244	\$ 69,487	\$ 142,547	\$ (10,511)	\$ (442)

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

(In thousands)	Three Months Ended March 31,	
	2012	2011
Dividends and other investment income	\$ 657	\$ 1,631
Fixed income securities gains (losses), net	667	(105)

*Nonrecurring Fair Value Measurements*

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

(In thousands)	Fair value at March 31, 2012				Fair value at December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>ASSETS</b>								
HTM securities adjusted for OTTI			\$	\$			\$ 8,308	\$ 8,308
Impaired loans		\$ 17,176		17,176	\$ 3,615			3,615
Other real estate owned		34,842		34,842		55,957		55,957
	\$	\$ 52,018	\$	\$ 52,018	\$	\$ 59,572	\$ 8,308	\$ 67,880

(In thousands)	Gains (losses) from fair value changes	
	Three Months Ended	
	March 31, 2012	March 31, 2011
<b>ASSETS</b>		
Impaired loans	\$ (2,401)	\$ (3,754)
Other real estate owned	(7,332)	(21,661)
	\$ (9,733)	\$ (25,415)

We recognized net gains of \$2.8 million and \$5.4 million during the three months ended March 31, 2012 and 2011, respectively, from the sale of OREO properties that had a carrying value at the time of sale of approximately \$35.2 million and \$72.2 million. Previous to their sale in these periods, we recognized impairment on these properties of \$0.7 million and \$4.9 million.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

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

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

***Fair Value of Certain Financial Instruments***

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

(In thousands)	March 31, 2012		December 31, 2011	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
<b>Financial assets:</b>				
HTM investment securities	\$ 797,149	\$ 728,479	\$ 807,804	\$ 729,974
Loans and leases (including loans held for sale), net of allowance	35,765,121	35,440,241	36,296,284	36,006,619
<b>Financial liabilities:</b>				
Time deposits	3,326,717	3,356,289	3,413,550	3,444,189
Foreign deposits	1,366,826	1,366,152	1,575,361	1,574,271
Other short-term borrowings	19,839	19,895	70,273	70,387
Long-term debt (less fair value hedges)	2,273,027	2,591,423	1,943,618	2,225,078

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

HTM investment securities primarily consist of municipal securities and bank and insurance trust preferred CDOs. HTM municipal securities are fair valued under Level 3 using a standard form discounted cash flow

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

model as discussed previously and the valuation inputs described under auction rate securities. HTM bank and insurance trust preferred CDOs are fair valued using the licensed internal third party model described previously.

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

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

These fair value disclosures represent our best estimates based on relevant market information and information about the financial instruments. Fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of the various instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in the above methodologies and assumptions could significantly affect the estimates.

Further, certain financial instruments and all nonfinancial instruments are excluded from the applicable disclosure requirements. Therefore, the fair value amounts shown in the schedule do not, by themselves, represent the underlying value of the Company as a whole.

## 10. GUARANTEES, COMMITMENTS AND CONTINGENCIES

**Guarantees**

The following are guarantees issued by the Company:

(In thousands)	March 31, 2012	December 31, 2011
Standby letters of credit:		
Financial	\$ 904,895	\$ 914,986
Performance	161,572	165,298
	\$ 1,066,467	\$ 1,080,284

The Company's 2011 Annual Report on Form 10-K contains further information about these letters of credit including their terms and collateral requirements. At March 31, 2012, the Company had recorded approximately \$12.6 million as a liability for these guarantees, which consisted of \$7.8 million attributable to the reserve for unfunded lending commitments and \$4.8 million of deferred commitment fees.

As of March 31, 2012, the Parent has guaranteed approximately \$300.0 million of debt of affiliated trusts issuing trust preferred securities.



**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

*Legal Matters*

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

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

Based on our most recent review of legal matters, undertaken with respect to legal matters outstanding as of March 31, 2012, we believe that our current estimated liability for litigation and other legal actions and claims, reflected in our accruals and determined in accordance with applicable accounting guidance, is adequate and that liabilities in excess of the amounts currently accrued, if any, arising from litigation and other legal actions and claims for which an estimate as previously described is possible, will not have a material impact on our financial condition, results of operations, or cash flows. However, in light of the significant uncertainties involved in these matters, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to our results of operations or cash flows for any given reporting period.

## 11. RETIREMENT PLANS

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

(In thousands)	Pension benefits		Supplemental retirement benefits		Postretirement benefits	
			Three Months Ended March 31,			
	2012	2011	2012	2011	2012	2011
Service cost	\$ 13	\$ 97	\$	\$	\$ 9	\$ 8
Interest cost	1,892	4,375	115	140	12	14
Expected return on plan assets	(2,827)	(6,522)				
Amortization of prior service cost (credit)			31	31	(61)	(61)
Amortization of net actuarial (gain) loss	2,345	2,737	(28)	(4)	(22)	(31)
Net periodic benefit cost (credit)	\$ 1,423	\$ 687	\$ 118	\$ 167	\$ (62)	\$ (70)

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

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

12. OPERATING SEGMENT INFORMATION

We manage our operations and prepare management reports and other information with a primary focus on geographical area. As of March 31, 2012, we operate eight community/regional banks in distinct geographical areas. Performance assessment and resource allocation are based upon this geographical structure. Zions Bank operates 105 branches in Utah and 27 branches in Idaho. CB&T operates 102 branches in California. Amegy operates 82 branches in Texas. NBA operates 73 branches in Arizona. NSB operates 53 branches in Nevada. Vectra operates 38 branches in Colorado and one branch in New Mexico. TCBW operates one branch in the state of Washington. TCBO operates one branch in Oregon. Additionally, each subsidiary bank, except for NSB, NBA and TCBO, operates a foreign branch in the Grand Cayman Islands.

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

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents selected operating segment information for the three months ended March 31, 2012 and 2011:

(In millions)	Zions Bank		CB&T		Amegy		NBA		NSB	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
<b>CONDENSED INCOME STATEMENT</b>										
Net interest income	\$ 172.6	\$ 172.6	\$ 117.8	\$ 128.7	\$ 94.3	\$ 93.0	\$ 42.1	\$ 43.1	\$ 31.2	\$ 33.1
Provision for loan losses	40.5	39.0	(2.9)	11.2	(23.3)	3.3	6.5	0.7	(6.7)	0.8
Net interest income after provision for loan losses	132.1	133.6	120.7	117.5	117.6	89.7	35.6	42.4	37.9	32.3
Net impairment losses on investment securities										
Loss on sale of investment securities to Parent			(9.2)	(13.5)						
Other noninterest income	55.3	49.5	18.5	38.4	33.6	34.0	7.7	8.5	7.9	8.6
Noninterest expense	122.0	128.4	81.2	90.3	82.0	79.9	37.9	45.1	35.3	34.6
Income (loss) before income taxes	65.4	54.7	48.8	52.1	69.2	43.8	5.4	5.8	10.5	6.3
Income tax expense (benefit)	22.9	18.2	19.1	20.5	23.3	14.2	2.1	2.3	3.6	2.1
Net income (loss)	42.5	36.5	29.7	31.6	45.9	29.6	3.3	3.5	6.9	4.2
Net income (loss) applicable to noncontrolling interests										
Net income (loss) applicable to controlling interest	42.5	36.5	29.7	31.6	45.9	29.6	3.3	3.5	6.9	4.2
Preferred stock dividends	(6.0)		(3.3)		(6.1)					
Net earnings (loss) applicable to common shareholders	\$ 36.5	\$ 36.5	\$ 26.4	\$ 31.6	\$ 39.8	\$ 29.6	\$ 3.3	\$ 3.5	\$ 6.9	\$ 4.2
<b>AVERAGE BALANCE SHEET DATA</b>										
Total assets	\$ 17,256	\$ 16,167	\$ 10,834	\$ 10,766	\$ 12,035	\$ 11,221	\$ 4,467	\$ 4,428	\$ 4,125	\$ 4,099
Total loans	12,534	12,829	8,344	8,347	7,875	7,571	3,280	3,273	2,203	2,424
Total deposits	14,704	13,492	9,113	9,213	9,473	8,700	3,709	3,711	3,568	3,488
Shareholder's equity:										
Preferred equity	480	480	262	262	488	488	305	305	260	360
Common equity	1,386	1,293	1,281	1,190	1,645	1,510	352	324	275	227
Noncontrolling interests										
Total shareholder's equity	1,866	1,773	1,543	1,452	2,133	1,998	657	629	535	587
	Vectra		TCBW		Other		Consolidated Company			
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011

**CONDENSED INCOME STATEMENT**



Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Net interest income	\$ 25.7	\$ 25.8	\$ 7.4	\$ 7.6	\$ (48.8)	\$ (80.0)	\$ 442.3	\$ 423.9
Provision for loan losses	1.0	3.1	0.6	1.9			15.7	60.0
Net interest income after provision for loan losses	24.7	22.7	6.8	5.7	(48.8)	(80.0)	426.6	363.9
Net impairment losses on investment securities					(10.2)	(3.1)	(10.2)	(3.1)
Loss on sale of investment securities to Parent					9.2	13.5		
Other noninterest income	5.4	5.5	0.6	0.5	(11.8)	(7.8)	117.2	137.2
Noninterest expense	24.9	24.7	4.7	4.5	4.3	0.9	392.3	408.4
Income (loss) before income taxes	5.2	3.5	2.7	1.7	(65.9)	(78.3)	141.3	89.6
Income tax expense (benefit)	1.6	1.0	0.9	0.5	(21.6)	(21.8)	51.9	37.0
Net income (loss)	3.6	2.5	1.8	1.2	(44.3)	(56.5)	89.4	52.6
Net income (loss) applicable to noncontrolling interests					(0.3)	(0.2)	(0.3)	(0.2)
Net income (loss) applicable to controlling interest	3.6	2.5	1.8	1.2	(44.0)	(56.3)	89.7	52.8
Preferred stock dividends					(48.8)	(38.0)	(64.2)	(38.0)
Net earnings (loss) applicable to common shareholders	\$ 3.6	\$ 2.5	\$ 1.8	\$ 1.2	\$ (92.8)	\$ (94.3)	\$ 25.5	\$ 14.8

**AVERAGE BALANCE SHEET DATA**

Total assets	\$ 2,364	\$ 2,253	\$ 897	\$ 852	\$ 602	\$ 919	\$ 52,580	\$ 50,705
Total loans	1,933	1,783	555	568	68	(127)	36,792	36,668
Total deposits	2,027	1,873	747	669	(970)	(557)	42,371	40,589
Shareholder's equity:								
Preferred equity	70	70	15	15	475	97	2,355	2,077
Common equity	202	202	76	70	(572)	(173)	4,645	4,643
Noncontrolling interests					(2)	(1)	(2)	(1)
Total shareholder's equity	272	272	91	85	(99)	(77)	6,998	6,719

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

ITEM 2. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**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, u

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

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

the Company's ability to successfully execute its business plans, manage its risks, and achieve its objectives;

changes in local, national and international political and economic conditions, including without limitation the political and economic effects of the recent economic crisis, delay of recovery from that crisis, economic conditions and fiscal imbalances in the United States and other countries, potential or actual downgrades in rating of sovereign debt issued by the United States and other countries, and other major developments, including wars, military actions, and terrorist attacks;

changes in financial market conditions, either internationally, nationally or locally in areas in which the Company conducts its operations, including without limitation reduced rates of business formation and growth, commercial and residential real estate development and real estate prices;

fluctuations in markets for equity, fixed-income, commercial paper and other securities, including availability, market liquidity levels, and pricing;

changes in interest rates, the quality and composition of the loan and securities portfolios, demand for loan products, deposit flows and competition;

acquisitions and integration of acquired businesses;

increases in the levels of losses, customer bankruptcies, bank failures, claims, and assessments;

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

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;

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

the Company's participation in and exit from governmental programs implemented under the EESA and the ARRA, including the TARP and CPP, and the impact of such programs and related regulations on the Company;

the impact of executive compensation rules under the Dodd-Frank Act, the EESA and the ARRA, which may impact the ability of the Company and other American financial institutions to retain and recruit executives and other personnel necessary for their businesses and competitiveness;

the impact of the Dodd-Frank Act and of new international standards known as Basel III, and rules and regulations thereunder, many of which have not yet been promulgated, on our required regulatory capital and liquidity levels, governmental assessments on us, the scope of business activities in which we may engage, the manner in which we engage in such activities, the fees we may charge for certain products and services, and other matters affected by the Dodd-Frank Act and these international standards;

continuing consolidation in the financial services industry;

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

success in gaining regulatory approvals, when required;

changes in consumer spending and savings habits;

increased competitive challenges and expanding product and pricing pressures among financial institutions;

inflation and deflation;

technological changes and the Company's implementation of new technologies;

the Company's ability to develop and maintain secure and reliable information technology systems;

legislation or regulatory changes which adversely affect the Company's operations or business;

the Company's ability to comply with applicable laws and regulations;

changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies; and

increased costs of deposit insurance and changes with respect to FDIC insurance coverage levels. Except to the extent required by law, the Company specifically disclaims any obligation to update any factors or to publicly announce the result of revisions to any of the forward-looking statements included herein to reflect future events or developments.

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

**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
bps	Basis Points
CB&T	California Bank & Trust
CDO	Collateralized Debt Obligation
CDR	Constant Default Rate
CLTV	Combined Loan-to-Value Ratio
CPP	Capital Purchase Program
CPR	Constant Prepayment Rate
CRE	Commercial Real Estate
DB	Deutsche Bank AG
DBRS	Dominion Bond Rating Service
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
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation
FRB	Federal Reserve Board
GAAP	Generally Accepted Accounting Principles
HECL	Home Equity Credit Line
HTM	Held-to-Maturity
IA	Indemnification Asset
IFRS	International Financial Reporting Standards
ISDA	International Swap Dealer Association
LIBOR	London Interbank Offered Rate
Lockhart	Lockhart Funding LLC
NBA	National Bank of Arizona
NOW	Negotiable Order of Withdrawal
NRSRO	Nationally Recognized Statistical Rating Organization
NSB	Nevada State Bank
OCC	Office of the Comptroller of the Currency
OCI	Other Comprehensive Income
OREO	Other Real Estate Owned
OTC	Over-the-Counter
OTTI	Other-Than-Temporary-Impairment
Parent	Zions Bancorporation

PD	Probability of Default
PIK	Payment in Kind
REIT	Real Estate Investment Trust
RULC	Reserve for Unfunded Lending Commitments
SBA	Small Business Administration
SBIC	Small Business Investment Company
SEC	Securities and Exchange Commission
TARP	Troubled Asset Relief Program
TCBO	The Commerce Bank of Oregon
TCBW	The Commerce Bank of Washington
TDR	Troubled Debt Restructuring
TRS	Total Return Swap
Vectra	Vectra Bank Colorado
Zions Bank	Zions First National Bank
ZMSC	Zions Management Services Company

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

**CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES**

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

**RESULTS OF OPERATIONS**

The Company reported net earnings applicable to common shareholders of \$25.5 million, or \$0.14 per diluted share for the first quarter of 2012, compared to net earnings applicable to common shareholders of \$14.8 million, or \$0.08 per diluted share for the first quarter of 2011. The significant improvement in net earnings was mainly caused by the following favorable changes:

\$47.1 million decrease in total interest expense;

\$44.3 million decline in the provision for loan losses;

\$16.4 million reduction in other real estate expense;

\$13.2 million decrease in FDIC premiums; and

\$8.2 million increase in net equity securities gains.

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

\$28.7 million decrease in total interest income;

\$26.1 million increase in preferred stock dividends;

\$16.9 million reduction in other noninterest income;

\$14.8 million increase in income taxes;

\$9.6 million increase in salaries and employee benefits;

\$7.5 million decline in other service charges, commissions and fees;



\$7.1 million increase in net impairment losses on investment securities; and

\$5.8 million decline in the negative provision for unfunded lending commitments.

During 2009, the Company executed a subordinated debt modification and exchange transaction. The original discount on the convertible subordinated debt was \$679 million and the remaining discount at March 31, 2012 was \$201 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, a noncash expense, using the interest method over the remaining term of the subordinated debt (referred to herein as *discount amortization* ). When holders of the convertible subordinated notes convert to preferred stock, the rate of amortization is accelerated by immediately expensing any unamortized discount associated with the converted debt (referred to herein as *accelerated discount amortization* ).

Excluding the impact of these noncash expenses, income before income taxes and subordinated debt conversions for the first three months of 2012 increased to \$165 million compared to \$144 million in the first quarter of 2011.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	Three Months Ended				
	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Income before income taxes (GAAP)	\$ 141,262	\$ 136,648	\$ 168,066	\$ 126,935	\$ 89,624
Convertible subordinated debt discount amortization	11,182	10,817	10,645	11,439	13,120
Accelerated convertible subordinated debt discount amortization	12,204	5,759	7,498	61,353	40,994
Income before income taxes and subordinated debt conversions (non-GAAP)	\$ 164,648	\$ 153,224	\$ 186,209	\$ 199,727	\$ 143,738

The impact of the conversion of subordinated debt into preferred stock is further detailed in the [Capital Management](#) section.

**Net Interest Income, Margin and Interest Rate Spreads**

Net interest income is the difference between interest earned on interest-earning assets and interest incurred on interest-bearing liabilities. Taxable-equivalent net interest income is the largest portion of Zions' revenue. For the first quarter of 2012, taxable-equivalent net interest income was \$447.2 million, compared to \$429.2 million for the first quarter of 2011, and \$466.7 million in the fourth quarter of 2011. The tax rate used for calculating all taxable-equivalent adjustments was 35% for all periods presented.

A gauge that we use to measure the Company's success in managing its net interest income is the level and stability of the net interest margin. The net interest margin was 3.73% for the first quarter of 2012, compared to 3.86% in the fourth quarter of 2011 and 3.76% in the first quarter of 2011. The decreased net interest margin for the first quarter of 2012 compared to the prior quarter and to the same period in 2011 resulted primarily from:

- differences in the amount of amortization and accelerated amortization on convertible subordinated debt, refer to [Capital Management](#) for further discussion;

- changes in the composition of interest earning assets;

- interest rate resets on older vintage longer-term loans;

- new loans originated at lower rates; and

- funding cost reductions only partially offsetting the impact of the previous items.

Low-yielding money market investments increased to 15.1% of average interest-earning assets for the first quarter of 2012, compared to 13.7% and 9.7% for the fourth and first quarters of 2011, respectively. The average rate earned on money market investments remained stable when compared to the same prior year period. See [Interest Rate and Market Risk Management](#) for further discussion of how we manage the portfolios of interest-earning assets, interest-bearing liabilities, and associated risk. The average interest rate earned on net loans and leases, excluding FDIC-supported loans, declined 34 basis points to 5.17% in the first quarter of 2012 from 5.51% in the first quarter of 2011. The two factors that primarily drove this decrease are (1) adjustable rate loans originated in the past resetting to lower rates due to the current repricing index being lower than the rate when the loans were originated, and (2) maturing loans, many of which have rate floors, being replaced with new loans at lower original coupons or lower floors compared to the rates at which loans were originated when spreads were higher. Average total loans and leases were stable when compared to both the first and fourth quarters of 2011.

## Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Our total cost of funding declined in the first quarter of 2012 compared to both the first and fourth quarters of 2011, due to a favorable change in the mix of funding sources and a decline in rates paid on interest-bearing funding. Average noninterest-bearing deposits grew to \$15.7 billion (34.4% of total liabilities) in the first quarter of 2012, compared to \$13.7 billion (31.1% of total liabilities) and \$15.5 billion (34.1% of total liabilities) in the first and fourth quarters of 2011, respectively. As a result of this growth in noninterest-

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

bearing deposits and the Company's efforts to limit the growth in excess liquidity, average borrowed funds decreased by 9.0% and average interest-bearing deposits declined 0.9% compared to the same prior year period. The average rate paid on interest-bearing deposits decreased at a slower pace than the average rate earned on loans. The average rate paid on interest-bearing deposits declined 20 basis points to 0.35% in the first quarter of 2012 from 0.55% in the comparable prior year period.

The Company believes that its core net interest margin is more reflective of its operating performance than the reported net interest margin. We calculate the core net interest margin by excluding the impact of discount amortization on convertible subordinated debt, accelerated discount amortization on convertible subordinated debt, and additional accretion of interest income on acquired loans from the net interest margin. The core net interest margin was 3.81% and 4.06% for the first quarters of 2012 and 2011, respectively, and 3.86% in the fourth quarter of 2011, due to the previously discussed changes in asset and funding mix and pricing. See GAAP to non-GAAP Reconciliations for a reconciliation between the GAAP net interest margin and the non-GAAP core net interest margin.

The spread on average interest-bearing funds was 3.29% and 3.13% for first three months of 2012 and 2011, respectively. The spread on average interest-bearing funds for the first three months of 2012 was affected by most of the same factors that had an impact on the net interest margin.

The average interest rate earned by the securities portfolio increased by 77 bps to 3.58% for the first quarter of 2012 from 2.81% in the comparable prior year period. This increase in the rate earned on the securities portfolio is primarily attributable to the change in the mix of securities. In November 2011, the Company sold \$700 million of U.S. Treasury securities and deposited the proceeds in money market accounts.

We expect that the net interest margin will continue to be positively impacted in the next several quarters by the decreased level of nonperforming assets and adversely affected by the continued high level of low-yielding liquid assets, competitive loan pricing conditions, rate resets on loans originated in a higher interest rate environment, and the discount amortization related to the debt modification transactions, including the accelerated discount amortization to the extent that holders of the modified debt elect to convert their holdings to preferred stock. The unamortized discount on the convertible subordinated debt was \$201 million as of March 31, 2012, or 38.8% of the total \$518 million of remaining outstanding convertible subordinated notes and will be amortized as interest expense over the remaining life of the debt using the interest method. The net interest margin may also be adversely affected by a potential reduction of noninterest-bearing deposits when the unlimited deposit insurance on these deposits ends on December 31, 2012.

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Unaudited)

(In thousands)	Three Months Ended March 31, 2012			Three Months Ended March 31, 2011		
	Average balance	Amount of interest <sup>1</sup>	Average rate	Average balance	Amount of interest <sup>1</sup>	Average rate
<b>ASSETS</b>						
Money market investments	\$ 7,282,245	\$ 4,628	0.26%	\$ 4,513,934	\$ 2,843	0.26%
Securities:						
Held-to-maturity	799,741	10,999	5.53%	833,000	11,047	5.38%
Available-for-sale	3,093,827	23,704	3.08%	4,107,003	23,040	2.28%
Trading account	41,189	338	3.30%	49,769	452	3.68%
Total securities	3,934,757	35,041	3.58%	4,989,772	34,539	2.81%
Loans held for sale	174,902	1,502	3.45%	160,073	1,601	4.06%
Loans <sup>2</sup> :						
Loans and leases	36,078,917	463,830	5.17%	35,715,679	485,615	5.51%
FDIC-supported loans	712,877	23,559	13.29%	952,078	33,169	14.13%
Total loans	36,791,794	487,389	5.33%	36,667,757	518,784	5.74%
Total interest-earning assets	48,183,698	528,560	4.41%	46,331,536	557,767	4.88%
Cash and due from banks	1,122,979			1,078,869		
Allowance for loan losses	(1,046,709)			(1,423,701)		
Goodwill	1,015,129			1,015,161		
Core deposit and other intangibles	65,837			85,372		
Other assets	3,239,161			3,617,747		
Total assets	\$ 52,580,095			\$ 50,704,984		
<b>LIABILITIES</b>						
Interest-bearing deposits:						
Savings and NOW	\$ 7,200,170	3,607	0.20%	\$ 6,401,249	4,781	0.30%
Money market	14,701,771	11,757	0.32%	15,018,892	19,033	0.51%
Time	3,369,323	6,640	0.79%	4,056,761	10,602	1.06%
Foreign	1,408,409	1,409	0.40%	1,438,979	2,068	0.58%
Total interest-bearing deposits	26,679,673	23,413	0.35%	26,915,881	36,484	0.55%
Borrowed funds:						
Securities sold, not yet purchased	22,758	191	3.38%	32,054	343	4.34%
	528,662	154	0.12%	703,976	231	0.13%

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Federal funds purchased and security repurchase agreements						
Other short-term borrowings	48,394	434	3.61%	173,349	1,606	3.76%
Long-term debt	1,991,776	57,207	11.55%	1,939,921	89,872	18.79%
Total borrowed funds	2,591,590	57,986	9.00%	2,849,300	92,052	13.10%
Total interest-bearing liabilities	29,271,263	81,399	1.12%	29,765,181	128,536	1.75%
Noninterest-bearing deposits	15,691,499			13,672,638		
Other liabilities	619,231			548,101		
Total liabilities	45,581,993			43,985,920		
Shareholders' equity:						
Preferred equity	2,355,549			2,077,555		
Common equity	4,644,722			4,642,639		
Controlling interest shareholders' equity	7,000,271			6,720,194		
Noncontrolling interests	(2,169)			(1,130)		
Total shareholders' equity	6,998,102			6,719,064		
Total liabilities and shareholders' equity	\$ 52,580,095			\$ 50,704,984		
Spread on average interest-bearing funds			3.29%			3.13%
Taxable-equivalent net interest income and net yield on interest-earning assets		\$ 447,161	3.73%		\$ 429,231	3.76%

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

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

---

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

**Provisions for Credit Losses**

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

The provision for loan losses for the first three months of 2012 was \$15.7 million compared to \$60.0 million for the same period in 2011. The decrease in the provision reflects an improvement in credit quality metrics, including lower levels of criticized and classified loans, lower realized loss rates in most loan segments, and lower balances in construction and land development loans, which declined by 28.7% from March 31, 2011.

Net loan and lease charge-offs fell to \$54.5 million in the first quarter of 2012 from \$146.0 million in the same prior year period. See **Nonperforming Assets** and **Allowance and Reserve for Credit Losses** for further details.

During the first quarter of 2012, the Company experienced improved credit quality of unfunded lending commitments and released \$3.7 million from the related reserve, while it had released \$9.5 million in the first quarter of 2011. 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 and historical loss experience.

Although classified and nonperforming loan volumes continue to be elevated when compared to long-term historical levels, most measures of credit quality continued to show improvement in the first quarter of 2012. Classified loans, excluding FDIC-supported loans, increased by \$20 million during the first quarter of 2012. This increase was primarily due to the Company adopting a more proactive approach to requesting financial statements from certain borrowers of term and owner occupied loans. As a result of the change in approach, we estimate that \$175 million of loans that would have retained a pass grade under the former approach were downgraded to classified status. All of the grading decisions causing the \$175 million of additional downgrades were based on the most currently available financial statements. All of these loans were current in both principal and interest payments. Barring any significant economic downturn, we expect the Company's credit costs to remain low for the next several quarters. We also anticipate continued reductions in criticized and classified loans of most types, and continued reduction in net charge-offs for the next several quarters, compared to the elevated levels experienced from 2008 through 2011.

**Noninterest Income**

Noninterest income represents revenues the Company earns for products and services that have no interest rate or yield associated with them. For the first quarter of 2012, noninterest income was \$107.0 million compared to \$134.1 million for the same prior year period.

Other service charges, commissions, and fees, which are comprised of ATM fees, insurance commissions, bankcard merchant fees, debit card interchange fees, cash management fees, lending commitment fees, syndication and servicing fees, and other miscellaneous fees decreased to \$34.2 million from \$41.7 million earned in the first quarter of 2011. Most of the decline can be attributed to decreased debit card interchange fees.

## **Table of Contents**

### ZIONS BANCORPORATION AND SUBSIDIARIES

Capital markets and foreign exchange income includes trading income, public finance fees, foreign exchange income, and other capital market related fees. It declined to \$5.7 million from the \$7.2 million earned in the first quarter of 2011. The decrease was caused mainly by lower income from trading fixed income corporate bonds and a reduction in foreign exchange profits.

Dividends and other investment income consists of revenue from the Company's bank-owned life insurance program and revenues from other investments. Revenues from other investments include dividends on FHLB stock, Federal Reserve Bank stock, and earnings from unconsolidated affiliates including certain alternative venture investments. For the first three months of 2012, this income increased by \$1.5 million from \$8.0 million earned in the comparable prior year period. For the most part, the increase was caused by higher income from several unconsolidated affiliates.

Loan sales and servicing income was \$8.4 million and \$6.0 million in the first quarters of 2012 and 2011, respectively. The improvement was primarily due to increased value of mortgage servicing rights and gains from loan sales.

Losses from fair value and nonhedge derivatives were \$4.4 million in the first quarter of 2012 compared to a \$1.2 million gain in the same prior year period. The loss is primarily the result of expenses related to the TRS agreement.

Net gains from equity securities was \$9.1 million in the first quarter of 2012 compared to \$0.9 million in the first quarter of 2011. Most of the increase is attributable to unrealized gains from venture fund investments.

The Company recognized net credit related impairment losses on CDO investment securities of \$10.2 million and \$3.1 million in the first quarters of 2012 and 2011, respectively. See "Investment Securities Portfolio" for additional information.

Other noninterest income was \$4.0 million for the first three months of 2012 compared to \$21.0 million in the same prior year period. The first quarter of 2011 included an \$18.9 million gain related to certain loans which had been purchased from a failed bank in an FDIC-assisted transaction in 2009. The Company had submitted a bid for these loans, all of which were going to be covered by the FDIC loss sharing agreement. However, certain loans were charged off by the failed bank after the bid date but prior to the ownership transfer, and therefore the amount of the applicable loss sharing coverage had to be negotiated at a later date.

### **Noninterest Expense**

Noninterest expense decreased by 3.9% from the first quarter of 2011. During the past twelve months, the Company made significant progress in resolving problem loans and improving the credit quality of its loan portfolio, which caused significantly lower other real estate expense and credit related expense.

Salaries and employee benefits expense increased by \$9.6 million when compared to the first quarter of 2011. Most of the increase is due to higher base salary expense.

Other real estate expense decreased by 67.7% from the same prior year period. The decrease is primarily driven by a 41.0% reduction in OREO balances during the last twelve months, lower write-downs of OREO values during work-out, and lower property tax and other holding expenses.

The provision for unfunded lending commitments was \$(3.7) million and \$(9.5) million during the first quarters of 2012 and 2011, respectively. As previously discussed, the change was due to the release of the reserve for unfunded lending commitments.



## **Table of Contents**

### ZIONS BANCORPORATION AND SUBSIDIARIES

FDIC premiums decreased by 54.7% compared to the first quarter of 2011. The decrease is mostly caused by the change in the premium assessment formulas prescribed by the FDIC.

Other noninterest expense for the first quarter of 2012 decreased by 5.2% compared to the corresponding prior year period, primarily as a result of a lower write-down of the FDIC indemnification asset attributable to loans purchased from the FDIC in 2009. FDIC-supported loans continued to perform better than expected, and therefore the indemnification asset declined in value.

At March 31, 2012, the Company had 10,514 full-time equivalent employees, compared to 10,606 at December 31, 2011, and 10,484 at March 31, 2011.

### **Income Taxes**

The Company's income tax expense for the first quarter of 2012 was \$51.9 million compared to an income tax expense of \$37.0 million for the same period in 2011. The effective income tax rates, including the effects of noncontrolling interests, for the first three months of 2012 and 2011 were 36.6% and 41.2%, respectively. The tax expense rate for the first quarter of 2012 was benefited primarily by the non-taxability of certain income items. The tax expense rate for the first quarter of 2011 was increased primarily by the nondeductibility of a portion of the accelerated discount amortization from the conversion of subordinated debt to preferred stock during the quarter. As discussed in previous filings, the Company has received federal income tax credits under the U.S. Government's Community Development Financial Institutions Fund that are recognized over a seven-year period from the year of investment. The effect of these tax credits was to reduce income tax expense by \$0.3 million for the first three months of 2012 and by \$0.6 million for the first three months of 2011.

The Company had a net deferred tax asset (DTA) balance of \$476 million at March 31, 2012, compared to \$509 million at December 31, 2011, and \$513 million at March 31, 2011. The decrease in the DTA resulted primarily from loan charge-offs in excess of loan loss provisions, fair value adjustments or impairment write-downs related to securities and the payout of accrued compensation. The Company did not record an additional valuation allowance as of March 31, 2012. In assessing the need for a valuation allowance, both the positive and negative evidence about the realization of DTAs were evaluated. The ultimate realization of DTAs is based on the Company's ability to carry back net operating losses to prior tax periods, tax planning strategies that are prudent and feasible and current forecasts of future taxable income, including the reversal of deferred tax liabilities (DTLs), which can absorb losses generated in or carried forward to a particular tax year. After evaluating all of the factors and considering the weight of the positive evidence compared to the negative evidence, management has concluded it is more likely than not that the Company will realize the existing DTAs and that an additional valuation allowance is not needed. In addition, the Company has pursued strategies which may have the effect of mitigating the future possibility of a DTA valuation allowance.

## **Table of Contents**

### ZIONS BANCORPORATION AND SUBSIDIARIES

#### **BALANCE SHEET ANALYSIS**

##### **Interest-Earning Assets**

Interest-earning assets are those assets that have interest rates or yields associated with them. One of our goals is to maintain a high level of interest-earning assets relative to total assets, while keeping nonearning assets at a minimum. Interest-earning assets consist of money market investments, securities, loans, and leases. Another one of our goals is to maintain a higher-yielding mix of interest earning assets, such as loans, relative to lower-yielding assets, such as money market investments and securities, while maintaining adequate levels of highly liquid assets. The current period of slow economic growth, accompanied by the low loan demand experienced in recent quarters, has made it difficult to consistently achieve these goals due to higher levels of deposit funding that cannot be deployed in other than low-yielding, liquid assets.

Average interest-earning assets were \$48.2 billion for the first three months of 2012 compared to \$46.3 billion for the same period in 2011. Average interest-earning assets as a percentage of total average assets for the first three months of 2012 was 91.6% compared to 91.4% for the comparable period of 2011.

Average money market investments, consisting of interest-bearing deposits, federal funds sold and security resell agreements, grew by 61.3% to \$7.3 billion for the first three months of 2012 compared to \$4.5 billion for the same period of 2011. Average securities decreased by 21.1%. Average total deposits increased by 4.4% while average net loans and leases remained stable for the first quarter of 2012 when compared to the same prior year period. The increase in average money market investments is a reflection of the fact that loan balances have remained stable, and therefore have not absorbed the cash generated by increased customer deposits and other funding sources.

##### **Investment Securities Portfolio**

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

We have included selected credit rating information for certain of the investment securities schedules because this information is one indication of the degree of credit risk to which we are exposed, and significant declines in ratings for our investment portfolio could indicate an increased level of risk for the Company. The Dodd-Frank Act requires that the use of rating agency ratings cannot be mandated by any federal agency for any purpose after July 21, 2011. However, regulations implementing this requirement have not yet been finalized.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In millions)	March 31, 2012			December 31, 2011			March 31, 2011		
	Amortized cost	Carrying value	Estimated fair value	Amortized cost	Carrying value	Estimated fair value	Amortized cost	Carrying value	Estimated fair value
<b>Held-to-maturity:</b>									
Municipal securities	\$ 553	\$ 553	\$ 568	\$ 565	\$ 565	\$ 572	\$ 558	\$ 558	\$ 563
Asset-backed securities:									
Trust preferred securities banks and insurance	263	223	147	263	222	144	263	240	179
Other	24	21	13	24	21	14	27	23	16
	840	797	728	852	808	730	848	821	758
<b>Available-for-sale:</b>									
U.S. Treasury securities	4	5	5	4	5	5	726	726	726
U.S. Government agencies and corporations:									
Agency securities	135	139	139	153	158	158	180	186	186
Agency guaranteed mortgage-backed securities	504	523	523	535	553	553	580	590	590
Small Business Administration loan-backed securities	1,204	1,216	1,216	1,153	1,161	1,161	920	920	920
Municipal securities	118	119	119	121	122	122	142	144	144
Asset-backed securities:									
Trust preferred securities banks and insurance	1,771	936	936	1,794	930	930	1,941	1,186	1,186
Trust preferred securities real estate investment trusts	40	16	16	40	19	19	40	20	20
Auction rate securities	41	41	41	71	70	70	110	109	109
Other	56	47	47	65	50	50	100	79	79
	3,873	3,042	3,042	3,936	3,068	3,068	4,739	3,960	3,960
Mutual funds and other	181	181	181	163	163	163	170	170	170
	4,054	3,223	3,223	4,099	3,231	3,231	4,909	4,130	4,130
Total	\$ 4,894	\$ 4,020	\$ 3,951	\$ 4,951	\$ 4,039	\$ 3,961	\$ 5,757	\$ 4,951	\$ 4,888

The amortized cost of investment securities on March 31, 2012 decreased by 1.2% and 15.0% from the balances on December 31, 2011, and March 31, 2011, respectively. The decrease from March 31, 2011 to March 31, 2012 was mostly due to sales of U.S. Treasury securities, sales and redemptions of bank and insurance company trust preferred securities, partially offset by increased investments in SBA loan-backed securities.

As of March 31, 2012, 5.5% of the \$3.2 billion fair value of available-for-sale securities portfolio was valued at Level 1, 61.9% was valued at Level 2, and 32.6% was valued at Level 3 under the GAAP fair value accounting valuation hierarchy. At December 31, 2011, 5.0% of the \$3.2 billion fair value of available-for-sale securities portfolio was valued at Level 1, 61.6% was valued at Level 2, and 33.4% was valued at Level 3. See Note 9 of the Notes to Consolidated Financial Statements for further discussion of fair value accounting.

The amortized cost of available-for-sale investment securities valued at Level 3 was \$1,921 million at March 31, 2012 and the fair value of these securities was \$1,050 million. The securities valued at Level 3 were comprised of ABS CDOs and auction rate securities. For these Level 3

## Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

securities, net pretax unrealized loss recognized in OCI at March 31, 2012 was \$871 million. As of March 31, 2012, we believe that we will receive on settlement or maturity at least the amortized cost amounts of the Level 3 available-for-sale securities. This expectation applies to both those securities for which OTTI has been recognized and those for which no OTTI has been recognized.

The following schedule presents the Company's CDOs according to performing tranches without credit impairment and nonperforming tranches. These CDOs are a subset of our asset-backed securities and consist of both HTM and AFS securities.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

(Amounts in millions)	March 31, 2012						
	No. of tranches	Par amount	Amortized cost	Carrying value	Net unrealized losses recognized in OCI <sup>1</sup>	Weighted average discount rate <sup>2</sup>	% of carrying value to par
<b>Performing CDOs</b>							
Predominantly bank CDOs	32	\$ 939	\$ 835	\$ 619	\$ (216)	6.99%	66%
Insurance-only CDOs	21	451	446	332	(114)	7.20%	74%
Other CDOs	7	83	71	65	(6)	7.50%	78%
<b>Total performing CDOs</b>	<b>60</b>	<b>1,473</b>	<b>1,352</b>	<b>1,016</b>	<b>(336)</b>	<b>7.09%</b>	<b>69%</b>
<b>Nonperforming CDOs <sup>3</sup></b>							
Deferring interest, but no credit impairment	3	72	72	18	(54)	14.27%	25%
Credit impairment prior to last 12 months	33	597	439	125	(314)	14.00%	21%
Credit impairment during last 12 months	21	419	260	60	(200)	15.39%	14%
<b>Total nonperforming CDOs</b>	<b>57</b>	<b>1,088</b>	<b>771</b>	<b>203</b>	<b>(568)</b>	<b>14.56%</b>	<b>19%</b>
<b>Total CDOs</b>	<b>117</b>	<b>\$ 2,561</b>	<b>\$ 2,123</b>	<b>\$ 1,219</b>	<b>\$ (904)</b>	<b>10.26%</b>	<b>48%</b>

(Amounts in millions)	December 31, 2011						
	No. of tranches	Par amount	Amortized cost	Carrying value	Net unrealized losses recognized in OCI <sup>1</sup>	Weighted average discount rate <sup>2</sup>	% of carrying value to par
<b>Performing CDOs</b>							
Predominantly bank CDOs	32	\$ 956	\$ 846	\$ 615	\$ (231)	7.06%	64%
Insurance-only CDOs	21	455	449	359	(90)	5.75%	79%
Other CDOs	7	86	74	65	(9)	6.87%	76%
<b>Total performing CDOs</b>	<b>60</b>	<b>1,497</b>	<b>1,369</b>	<b>1,039</b>	<b>(330)</b>	<b>6.65%</b>	<b>69%</b>
<b>Nonperforming CDOs <sup>3</sup></b>							
Deferring interest, but no credit impairment	3	72	72	17	(55)	15.24%	24%
Credit impairment prior to last 12 months	37	676	498	120	(378)	15.31%	18%
Credit impairment during last 12 months	18	365	217	43	(174)	16.17%	12%
<b>Total nonperforming CDOs</b>	<b>58</b>	<b>1,113</b>	<b>787</b>	<b>180</b>	<b>(607)</b>	<b>15.59%</b>	<b>16%</b>
<b>Total CDOs</b>	<b>118</b>	<b>\$ 2,610</b>	<b>\$ 2,156</b>	<b>\$ 1,219</b>	<b>\$ (937)</b>	<b>10.46%</b>	<b>47%</b>

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

<sup>2</sup> Margin over LIBOR

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

## Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

The increase in fair value of CDOs with bank collateral was partially offset by a reduction in the fair value of two insurance only CDOs based on first quarter of 2012 trading information particular to these CDOs.

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

For the first quarter of 2012, the resulting average annual prepayment rate assumption for pools which include both large and small banks is 7.78% for each year through 2015, followed by an annual prepayment rate assumption of 3% thereafter. For pools without large banks, we assume a 3% annual prepayment rate.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

**Valuation Sensitivity of Level 3 Bank and Insurance CDOs**

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

(Amounts in millions)

	Held-to-maturity		Available-for-sale	
	Incremental	Cumulative	Incremental	Cumulative
Fair value balance at March 31, 2012	\$ 147		\$ 914	
<b>Currently Modeled Assumptions</b>				
<b>Expected collateral credit losses<sup>1</sup></b>				
Loss percentage from currently defaulted or deferring collateral <sup>2</sup>		4.4%		20.2%
Projected loss percentage from currently performing collateral				
1-year	0.3%	4.8%	0.5%	20.7%
years 2-5	1.7%	6.5%	1.3%	22.0%
years 6-30	11.0%	17.5%	9.3%	31.3%
<b>Discount rate<sup>3</sup></b>				
Weighted average spread over LIBOR	782 bp		1113 bp	
<b>Sensitivity of Modeled Assumptions</b>				
Increase (decrease) in fair value due to increase in projected loss percentage from currently performing collateral <sup>4</sup>				
	25%	\$ (0.5)	\$ (5.2)	
	50%	(1.2)	(10.4)	
	100%	(2.3)	(21.1)	
Increase (decrease) in fair value due to increase in projected loss percentage from currently performing collateral <sup>4</sup> and the immediate default of all deferring collateral with no recovery				
	25%	\$ (6.1)	\$ (98.5)	
	50%	(6.5)	(104.2)	
	100%	(7.4)	(115.4)	
Increase (decrease) in fair value due to increase in discount rate				
	+ 100 bp	\$ (13.0)	\$ (57.5)	
	+ 200 bp	(24.6)	(108.7)	
Increase (decrease) in fair value due to increase in Forward LIBOR Curve	+ 100 bp	\$ 7.8	\$ 41.0	
Increase (decrease) in fair value due to:				
increase in prepayment assumption <sup>5</sup>	+1%	\$ 3.0	\$ 28.3	
increase in prepayment assumption <sup>6</sup>	+2%	6.0	55.0	

- <sup>1</sup> *The Company uses an incurred credit loss model which specifies cumulative losses at the 1-year, 5-year, and 30-year points from the date of valuation. These current and projected losses are reflected in the CDO's fair value.*
- <sup>2</sup> *Weighted average percentage of collateral that is defaulted due to bank failures, or deferring payment as allowed under the terms of the security, including a 0% recovery rate on defaulted collateral and a credit-specific probability of default on deferring collateral which ranges from 2.18% to 100%.*
- <sup>3</sup> *The discount rate is a spread over the LIBOR swap yield curve at the date of valuation.*
- <sup>4</sup> *Percentage increase is applied to incremental projected loss percentages from currently performing collateral. For example, the 50% and 100% stress scenarios for AFS securities would result in cumulative 30-year losses of 36.9% = 31.3%+50%(0.5%+1.3%+9.3%) and 42.4% = 31.3%+100%(0.5%+1.3%+9.3%), respectively.*
- <sup>5</sup> *Prepayment rate for small banks increased to 4% per year for each year through maturity.*
- <sup>6</sup> *Prepayment rate for small banks increased to 5% per year for each year through maturity.*



---

**Table of Contents****ZIONS BANCORPORATION AND SUBSIDIARIES**

During the first quarter of 2012, the discount rates applicable to CDO tranches slightly decreased especially for lower priority tranches consistent with the decrease in risk asset spreads over the risk-free-rate. The lower discount rates combined with faster prepayments in certain CDOs increased the fair value of the portfolio.

Projected lifetime pool losses increased slightly for the first quarter of 2012. Approximately half of the loss increase was from deferring collateral and created credit-related OTTI this quarter. The remaining increase that did not cause credit-related OTTI was generally related to increased PDs for certain pools of performing collateral.

***Bank Collateral Deferrals***

The Company's loss and recovery experience as of March 31, 2012 (and our Level 3 modeling assumption) is essentially a 100% loss on defaults on bank collateral CDOs, although we have, to date, received several, generally small, recoveries on defaults. Our experience with deferring bank collateral has been that of all collateral that has elected to defer beginning in 2007 or thereafter, 49% has defaulted, and approximately 40% remains within the allowable deferral period. Additionally, 45 issuing banks, with collateral aggregating to 11% of all deferrals and 21% 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. Older deferrals are more likely to have defaulted. Approximately 91% of the bank collateral which first deferred prior to January 1, 2009 had defaulted by March 31, 2012. For bank collateral which first deferred on or after January 1, 2009, 34% had defaulted by March 31, 2012. New deferrals peaked in 2009. In 2008, 9% of collateral performing at the start of the year elected to defer by year end. This contrasts with 19% in 2009, 10% in 2010, and 4.6% in 2011. A total of \$266.3 million of bank collateral elected to initially defer during the first three months of 2012 which comprises 2.6% of the collateral performing at the start of 2012. One bank comprised \$165 million of the \$266.3 million in new deferrals. Banks may come current on their trust preferred securities for one or more quarters and then re-defer. This pattern has occurred in five of the 45 banks which had resumed payment after deferring. Further information on the Company's valuation process is detailed in Note 9 of the Notes to Consolidated Financial Statements.

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

**BELOW-INVESTMENT-GRADE RATED BANK AND INSURANCE TRUST PREFERRED CDOs BY ORIGINAL RATINGS LEVEL**

As of March 31, 2012

(Dollar amounts in millions)	Number of securities	% of portfolio	Par value	Total			Credit loss		Valuation losses <sup>1</sup>
				Amortized cost	Estimated fair value	Unrealized loss	Current year	Life-to-date	Life-to-date
Original ratings of securities, non-OTTI:									
Original AAA	28	38.7%	\$ 908.5	\$ 803.4	\$ 591.7	\$ (211.6)	\$	\$	\$ (140.7)
Original A	20	19.3%	451.5	451.6	228.1	(223.5)			
Original BBB	5	2.0%	46.5	46.5	21.7	(24.8)			
<b>Total Non-OTTI</b>		<b>60.0%</b>	<b>1,406.5</b>	<b>1,301.5</b>	<b>841.5</b>	<b>(459.9)</b>			<b>(140.7)</b>
Original ratings of securities, OTTI:									
Original AAA	1	2.1%	50.0	43.4	17.6	(25.8)		(4.8)	(1.9)
Original A	42	35.0%	820.0	588.4	152.9	(435.5)	(10.1)	(233.9)	
Original BBB	6	2.9%	67.1	24.1	2.4	(21.7)	(0.1)	(42.8)	
<b>Total OTTI</b>		<b>40.0%</b>	<b>937.1</b>	<b>655.9</b>	<b>172.9</b>	<b>(483.0)</b>	<b>(10.2)</b>	<b>(281.5)</b>	<b>(1.9)</b>
<b>Total noninvestment grade bank and insurance CDOs</b>		<b>100.0%</b>	<b>\$ 2,343.6</b>	<b>\$ 1,957.4</b>	<b>\$ 1,014.4</b>	<b>\$ (942.9)</b>	<b>\$ (10.2)</b>	<b>\$ (281.5)</b>	<b>\$ (142.6)</b>

	Par value	Average holding <sup>2</sup>		Unrealized gain (loss)
		Amortized cost	Estimated fair value	
Original ratings of securities, non-OTTI:				
Original AAA	\$ 31.3	\$ 27.7	\$ 20.4	\$ (7.3)
Original A	16.1	16.1	8.1	(8.0)
Original BBB	9.3	9.3	4.3	(5.0)
Original ratings of securities, OTTI:				
Original AAA	50.0	43.4	17.6	(25.8)
Original A	15.8	11.3	2.9	(8.4)
Original BBB	11.2	4.0	0.4	(3.6)

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

As of March 31, 2012

	Current lowest rating	# of issuers in collateral pool	# of issuers currently performing <sup>1</sup>	% of original collateral defaulted <sup>2</sup>	% of original collateral deferring <sup>3</sup>	Subordination as % of performing collateral <sup>4</sup>	Collateralization % <sup>5</sup>	Present value of expected cash flows discounted at coupon rate as a % of par <sup>6</sup>	Lifetime projected loss from performing collateral <sup>7</sup>
Original Ratings of Securities, Non-OTTI:									
Original AAA									
Best	BB	23	21	2.43%	4.26%	92.63%	1,357.02%	100%	
Weighted Average		29	19	15.65%	12.40%	41.39%	258.10%	100%	10.56%
Worst	CC	17	7	28.71%	26.03%	11.24%	162.23%	100%	14.51%
Original A									
Best	B	34	34			27.82%	309.29%	100%	10.47%
Weighted Average		16	14	3.39%	6.68%	12.28%	137.32%	100%	12.53%
Worst	C	6	4	10.31%	25.66%	(9.73)% <sup>8</sup>	72.26% <sup>9</sup>	100%	14.40%
Original BBB									
Best	CCC	34	34			16.70%	355.80%	100%	11.28%
Weighted Average		26	23	1.75%	4.05%	10.53%	263.14%	100%	12.52%
Worst	CC	24	20	6.13%	9.26%	5.73%	199.44%	100%	13.70%
Original Ratings of Securities, OTTI:									
Original AAA									
Single Security	CCC	43	24	16.89%	25.82%	29.25%	232.12%	94%	9.47%
Original A									
Best	CCC	36	31		1.89%	39.37%	164.93%	100%	
Weighted Average		53	33	11.82%	15.99%	(15.51)%	64.02%	80%	11.36%
Worst	C	3		27.50%	29.55%	(50.17)%	18.83%	36%	17.15%
Original BBB									
Best	C	42	37	6.28%	3.52%	(5.91)%	74.23%	99%	9.13%
Weighted Average		78	51	13.75%	19.45%	(27.52)%	(147.50)%	42%	11.00%
Worst	C	34	15	16.89%	25.82%	(49.46)%	(275.10)%		14.40%

<sup>1</sup> Excludes both defaulted issuers and issuers that have elected to defer payment of current interest.<sup>2</sup> Collateral is identified as defaulted when a regulator closes an issuing bank.<sup>3</sup> Collateral is identified as deferring when the Company becomes aware that an issuer has announced or elected to defer interest payment on trust preferred debt.<sup>4</sup> Utilizes the Company's loss assumption of 100% on defaulted collateral and the Company's issuer specific loss assumption of from 2.18% to 100% dependent on credit for each deferring piece of collateral. Subordination in the schedule includes the effects of seniority level within the CDOs liability structure, the Company's loss and recovery rate assumption for deferring but not defaulted collateral and a 0% recovery rate for defaulted collateral. The numerator is all collateral less the sum of (i) 100% of the defaulted collateral, (ii) the sum of the projected net loss amounts for each piece of deferring but not defaulted collateral and (iii) the amount of each CDO's debt which is either senior to or pari passu with our security's priority level. The denominator is all collateral less the sum of (i) 100% of the defaulted collateral and (ii) the sum of the projected net loss amounts for each piece of deferring but not defaulted collateral.<sup>5</sup> Utilizes the Company's loss assumption of 100% on defaulted collateral and the Company's issuer specific loss assumption ranging from 2.18% to 100% dependent on credit for each deferring piece of collateral. Collateralization in the schedule identifies the portion of a CDO tranche that is backed by nondefaulted collateral. The numerator is all collateral less the sum of (i) 100% of the defaulted collateral, (ii) the sum of the projected net loss amounts for

## Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

*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.*

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

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

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

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

Certain original A-rated and original B-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

## **Table of Contents**

### ZIONS BANCORPORATION AND SUBSIDIARIES

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.

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

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

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

For some CDO tranches, for which we previously recorded OTTI, expected future cash flows have remained stable or have slightly improved subsequent to the quarter that OTTI was identified and recorded. For other CDO tranches, an adverse change in the expected future cash flow has resulted in the recording of additional OTTI. In both situations, while a large difference may remain between fair value and amortized cost, the difference is not due to credit. The expected future cash flow substantiates the return of the full amortized cost as described below. The primary drivers of unrealized losses in these CDOs are further discussed in Note 4 of the Notes to Consolidated Financial Statements. We utilize a present value technique to both identify the OTTI present in the CDO tranches and to estimate fair value.

During the first quarter of 2012, the Company recognized credit-related net impairment losses on CDOs of \$10.2 million, compared to losses of \$3.1 million in the same prior year period. Approximately a third of the OTTI recorded in the first three months of 2012 resulted from prepayments of trust preferred securities by issuing banks in our CDO pools. This had the effect of reducing future cash flows to certain junior CDO tranches, causing OTTI, while providing more immediate cash to senior tranches, resulting in improved balances in accumulated other comprehensive income. The remaining portion of OTTI was attributable to credit deterioration at a small number of banks.

#### **Exposure to State and Local Governments**

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

(In millions)	March 31, 2012	December 31, 2011
Loans and leases	\$ 441	\$ 441
Held-to-maturity municipal securities	553	565
Available-for-sale municipal securities	119	122
Available-for-sale auction rate securities	41	70
Trading account municipal securities	5	9
Unused commitments to extend credit	96	103
<b>Total direct exposure to municipalities</b>	<b>\$ 1,255</b>	<b>\$ 1,310</b>

Company policy requires that extensions of credit to municipalities be subjected to specific underwriting standards. At March 31, 2012 all of the outstanding municipal loans were performing and none were on nonaccrual. A significant amount of the municipal loan and lease portfolio is secured by real estate and equipment, and approximately 95% of the outstanding credits were originated by Amegy, CB&T, Vectra, and ZFNB. See Note 5 of the Notes to Consolidated Financial Statements for additional information about the credit quality of these municipal loans.

All municipal securities are reviewed quarterly for OTTI. 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 HTM and AFS municipal securities are evaluated by the Company for their credit worthiness, and some of the securities are guaranteed by third parties. Of the AFS municipal securities, 97% are rated by major credit rating agencies and were rated investment grade as of March 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 outside customers.

**European Exposure**

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

In the normal course of business, the Company may enter into transactions with subsidiaries of companies and financial institutions headquartered in Portugal, Ireland, Italy, Greece, or Spain. Such transactions may include deposits, loans, letters of credit, and derivatives, as well as foreign currency exchange agreements. As of March 31, 2012, these transactions did not present any material direct or indirect risk exposure to the Company. Among the derivative transactions, the Company has entered into a TRS agreement with Deutsche Bank AG with regard to certain bank and insurance trust preferred CDOs (see Note 6 of the Notes to Consolidated Financial Statements). If Deutsche Bank were unable to perform under the TRS, the agreement would terminate at no cost to Zions. There would be no balance sheet impact from cancellation, and the Company would save approximately \$5.3 million in fees quarterly. However, if the TRS were cancelled, the Company would lose the potential future risk mitigation benefits of the TRS, and regulatory risk weighted assets under the Basel I framework would increase by approximately \$3.4 billion, which would reduce regulatory risk-based capital ratios by approximately 7%.

**Loan Portfolio**

As of March 31, 2012, loans and leases were \$36.6 billion, reflecting a 1.5% decrease from December 31, 2011, and a 0.1% increase from March 31, 2011. The decrease from December 31, 2011 is primarily due to pay-downs and charge-offs, which continue to more than offset new loan originations.



**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

(Amounts in millions)	March 31, 2012		December 31, 2011		March 31, 2011	
	Amount	% of total loans	Amount	% of total loans	Amount	% of total loans
<b>Commercial:</b>						
Commercial and industrial	\$ 10,157	27.8%	\$ 10,335	27.8%	\$ 9,223	25.2%
Leasing	394	1.1%	380	1.0%	366	1.0%
Owner occupied	7,887	21.6%	8,159	22.0%	8,247	22.6%
Municipal	441	1.2%	441	1.2%	435	1.2%
Total commercial	18,879		19,315		18,271	
<b>Commercial real estate:</b>						
Construction and land development	2,100	5.7%	2,265	6.1%	2,945	8.1%
Term	8,070	22.0%	7,883	21.2%	7,837	21.4%
Total commercial real estate	10,170		10,148		10,782	
<b>Consumer:</b>						
Home equity credit line	2,167	5.9%	2,187	5.9%	2,123	5.8%
1-4 family residential	3,875	10.6%	3,921	10.6%	3,625	9.9%
Construction and other consumer real estate	316	0.9%	306	0.8%	324	0.9%
Bankcard and other revolving plans	274	0.7%	291	0.8%	275	0.8%
Other	223	0.6%	226	0.6%	233	0.6%
Total consumer	6,855		6,931		6,580	
FDIC-supported loans <sup>1</sup>	687	1.9%	751	2.0%	913	2.5%
Total net loans	\$ 36,591	100.0%	\$ 37,145	100.0%	\$ 36,546	100.0%

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

Most of the loan portfolio contraction during the first three months of 2012 occurred in owner occupied, commercial and industrial, and construction and land development loans. The largest reductions occurred at CB&T, NSB and ZFNB.

**Other Noninterest-Bearing Investments**

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

(In millions)	March 31, 2012	December 31, 2011	March 31, 2011
Bank-owned life insurance	\$ 447	\$ 443	\$ 432
Federal Home Loan Bank stock	114	116	123



Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Federal Reserve stock	133	132	128
SBIC investments	50	39	39
Non-SBIC investment funds and other	117	121	123
Trust preferred securities	14	14	14
	\$ 875	\$ 865	\$ 859

**Deposits**

Deposits, both interest-bearing and noninterest-bearing, are a primary source of funding for the Company. Average total deposits for the first three months of 2012 increased by 4.4% compared to the same prior year period, with average interest-bearing deposits decreasing 0.9% and average noninterest-bearing deposits increasing 14.8%. The decline in interest-bearing deposits resulted from actions taken by the Company to reduce higher cost deposits, such as time deposits.

## **Table of Contents**

### ZIONS BANCORPORATION AND SUBSIDIARIES

Core deposits at March 31, 2012, which exclude time deposits larger than \$100,000 and brokered deposits, increased by 0.6%, or \$252 million, from December 31, 2011. The increase was mainly due to increases in savings and NOW, money market, and noninterest-bearing demand deposits, partially offset by decreases in foreign deposits and time deposits less than \$100,000.

Demand, savings and money market deposits comprised 89.1% of total deposits at the end of the first quarter of 2012, compared with 88.4% and 86.6% as of December 31, 2011 and March 31, 2011, respectively.

During the first quarter of 2011, the Company maintained a low level of brokered deposits due to excess liquidity and weak loan demand. At March 31, 2012, total deposits included \$214 million of brokered deposits compared to \$204 million at December 31, 2011 and \$294 million at March 31, 2011.

### **RISK ELEMENTS**

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

#### **Credit Risk Management**

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

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

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

Credit risk associated with counterparties to off-balance sheet credit instruments is generally limited to the hedging of interest rate risk through the use of swaps and futures. Our subsidiary banks that engage in this

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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 did not exceed \$16 million at March 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 commercial real estate lending, particularly construction and land development lending, leveraged lending, municipal lending and lending to the energy sector. All of these limits are continually monitored and revised as necessary. The majority of the Company's business activity is with customers located within the geographical footprint of its banking subsidiaries.

The Company's loan portfolio includes loans that were acquired from failed banks in 2009: Alliance Bank, Great Basin Bank, and Vineyard Bank. These loans include nonperforming loans and other loans with characteristics indicative of a high credit risk profile. Substantially all of these loans are covered under loss sharing agreements with the FDIC for which the FDIC generally will assume 80% of the first \$275 million of credit losses for the Alliance Bank assets, \$40 million of credit losses for the Great Basin Bank assets, \$465 million of credit losses for the Vineyard Bank assets and 95% of the credit losses in excess of those amounts. Therefore, the Company's financial exposure to losses from these assets is substantially limited. In addition, the acquired loans have performed better than originally expected. FDIC-supported loans represent approximately 1.9% of the Company's total loan portfolio at March 31, 2012.

**LOSSES COVERED BY FDIC LOSS SHARING AGREEMENTS**

(In millions)	Inception through March 31, 2012	
	Total actual gross losses	Threshold
Alliance Bank	\$ 183	\$ 275
Vineyard Bank	216	465
Great Basin Bank	12	40
	\$ 411	\$ 780

The Company participates in various 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 March 31, 2012, the principal balance of such loans was \$594 million, and the guaranteed portion amounted to \$440 million. Most of these loans were guaranteed by the Small Business Administration. Government agency guaranteed loans, excluding FDIC-supported loans, consisted of the following as of March 31, 2012.

(Amounts in millions)	March 31, 2012	Percent guaranteed	December 31, 2011	Percent guaranteed
Commercial	\$ 572	74%	\$ 581	74%
Commercial real estate	20	75%	20	75%
Consumer	2	100%	2	100%
Total loans excluding FDIC-supported loans	\$ 594	74%	\$ 603	74%



**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

The credit quality of the Company's loan portfolio improved further during the first quarter of 2012. Nonperforming lending-related assets decreased by 3.0% and 38.7% from December 31, 2011 and March 31, 2011, respectively. Gross charge-offs declined to \$80 million from \$168 million in the first three months of 2012 and 2011, respectively. Net charge-offs decreased to \$55 million from \$146 million in the same periods.

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

**Commercial Lending**

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

(Amounts in millions)	March 31, 2012		December 31, 2011	
	Amount	Percent	Amount	Percent
Real estate, rental and leasing	\$ 2,659	14.1%	\$ 2,755	14.3%
Manufacturing	1,944	10.3%	2,069	10.7%
Mining, quarrying and oil and gas extraction	1,767	9.4%	1,763	9.1%
Retail trade	1,625	8.6%	1,646	8.5%
Wholesale trade	1,516	8.0%	1,600	8.3%
Healthcare and social assistance	1,216	6.4%	1,245	6.4%
Construction	1,057	5.6%	1,083	5.6%
Transportation and warehousing	983	5.2%	949	4.9%
Finance and insurance	972	5.1%	865	4.5%
Professional, scientific and technical services	923	4.9%	953	4.9%
Accommodation and food services	788	4.2%	825	4.3%
Other <sup>1</sup>	3,429	18.2%	3,562	18.5%
<b>Total</b>	<b>\$ 18,879</b>	<b>100.0%</b>	<b>\$ 19,315</b>	<b>100.0%</b>

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

**Commercial Real Estate Loans**

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

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

Loan Type	As of Date	Collateral Location									Total	% of total CRE
		Arizona	Northern California	Southern California	Nevada	Colorado	Texas	Utah/ Idaho	Washington	Other <sup>1</sup>		
<b>Commercial term</b>												
Balance outstanding	3/31/12	\$ 1,041.2	\$ 591.0	\$ 2,175.1	\$ 709.5	\$ 495.3	\$ 1,056.5	\$ 891.3	\$ 250.5	\$ 859.6	\$ 8,070.0	79.4%
% of loan type		12.9%	7.3%	27.0%	8.8%	6.1%	13.1%	11.0%	3.1%	10.7%	100.0%	
Delinquency rates <sup>2</sup> :												
0-89 days	3/31/12	0.2%	1.0%	0.5%	1.2%	0.2%	1.3%	0.4%		0.4%		0.6%
	12/31/11	0.6%	0.4%	1.2%	0.5%	0.5%	1.6%	0.5%		1.1%		0.9%
90 days	3/31/12	0.9%	0.6%	0.3%	0.8%	1.9%	1.8%	0.7%	1.1%	4.3%		1.2%
	12/31/11	0.9%	0.3%	0.3%	0.4%		1.7%	0.6%		2.1%		0.8%
Accruing loans past due 90 days or more	3/31/12	\$ 1.3	\$	\$ 0.8	\$	\$	\$	\$	\$	\$ 1.1	\$ 3.2	
	12/31/11	0.4					3.2			0.6	4.2	
Nonaccrual loans	3/31/12	16.7	9.4	21.7	43.9	10.2	25.2	11.2	2.7	49.3	190.3	
	12/31/11	13.7	3.4	26.6	37.3	13.9	23.3	9.1		28.9	156.2	
<b>Residential construction and land development</b>												
Balance outstanding	3/31/12	\$ 92.7	\$ 24.9	\$ 157.2	\$ 6.9	\$ 30.6	\$ 249.7	\$ 153.0	\$ 0.5	\$ 40.3	\$ 755.8	7.4%
% of loan type		12.3%	3.3%	20.8%	0.9%	4.1%	33.0%	20.2%	0.1%	5.3%	100.0%	
Delinquency rates <sup>2</sup> :												
0-89 days	3/31/12	1.0%	13.7%	1.5%		0.2%	2.5%	0.1%				1.7%
	12/31/11	0.6%	14.1%		0.8%	13.8%	0.4%	0.2%				1.3%
90 days	3/31/12	1.8%		2.7%	42.1%	20.1%	9.3%	4.0%				5.9%
	12/31/11	2.7%		3.9%	6.8%	5.3%	11.6%	4.5%	24.1%			6.7%
Accruing loans past due 90 days or more	3/31/12	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
	12/31/11	0.5		0.2			0.1				0.8	
Nonaccrual loans	3/31/12	9.6	0.2	8.0	4.2	6.2	38.2	14.4			80.8	
	12/31/11	13.0		6.4	5.0	1.9	49.6	15.0	0.2		91.1	
<b>Commercial construction and land development</b>												
Balance outstanding	3/31/12	\$ 141.1	\$ 28.8	\$ 188.6	\$ 77.5	\$ 122.2	\$ 422.1	\$ 322.4	\$ 24.8	\$ 17.0	\$ 1,344.5	13.2%
% of loan type		10.5%	2.1%	14.0%	5.8%	9.1%	31.4%	24.0%	1.8%	1.3%	100.0%	
Delinquency rates <sup>2</sup> :												
0-89 days	3/31/12	0.3%		0.1%	0.2%		0.7%	0.1%				0.3%
	12/31/11	1.6%				4.4%	1.7%					1.2%
90 days	3/31/12	2.6%			5.4%		3.7%					1.7%
	12/31/11	2.1%		1.1%	5.6%	5.5%	6.0%	1.7%				3.6%
Accruing loans past due 90 days or more	3/31/12	\$	\$	\$	\$	\$ 2.0	\$	\$	\$	\$	\$ 2.0	
	12/31/11			1.6			0.1				1.7	
Nonaccrual loans	3/31/12	3.6			5.8		42.5	14.9			66.8	
	12/31/11	5.9			12.1	9.1	81.4	20.2			128.7	

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Total construction and land development	3/31/12	\$ 233.8	\$ 53.7	\$ 345.8	\$ 84.4	\$ 152.8	\$ 671.8	\$ 475.4	\$ 25.3	\$ 57.3	\$ 2,100.3	
Total commercial real estate	3/31/12	\$ 1,275.0	\$ 644.7	\$ 2,520.9	\$ 793.9	\$ 648.1	\$ 1,728.3	\$ 1,366.7	\$ 275.8	\$ 916.9	\$ 10,170.3	100.0%

<sup>1</sup> No other geography exceeds \$108 million for all three loan types.

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

---

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

Approximately 35% of the commercial real estate term loans consist of mini-perm loans as of March 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 65% of commercial real estate loans are term loans with initial maturities generally of 15 to 20 years. The stabilization criteria for a project to qualify for a term loan differ by product type and includes, for example, criteria related to the cash flow generated by the project and occupancy rates.

Approximately 31% of the commercial construction and land development portfolio at March 31, 2012 consists of acquisition and development loans. Most of these acquisition and development properties are tied to 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 deals with a different product type, many of the requirements previously mentioned, such as creditworthiness of the developer, up-front injection of the developer's equity, remargining requirements, and the viability of the project are also important in underwriting a residential development loan. Heavy consideration is given to market acceptance of the product, location, strength of the developer, and the ability of the developer to stay within budget. Progress inspections by qualified independent inspectors are routinely performed before disbursements are made.

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

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

Interest reserves are generally established as an expense item in the budget for real estate construction or development loans. We generally require borrowers to put their equity into the project at the inception of the construction. This enables the bank to ensure the availability of equity in the project. The Company's practice is to monitor the construction, sales and/or leasing progress to determine whether or not the project remains viable. If at any time during the life of the credit the project is determined not to be viable, the bank takes appropriate action to protect its collateral position via negotiation and/or legal action as deemed



## **Table of Contents**

### ZIONS BANCORPORATION AND SUBSIDIARIES

necessary. The bank then evaluates the appropriate use of interest reserves. At March 31, 2012, and March 31, 2011, Zions affiliates had 351 and 295 loans with an outstanding balance of \$495 million and \$362 million where available interest reserves amounted to \$42 million and \$35 million, respectively. In instances where projects have been determined not to be viable, the interest reserves and other appropriate disbursements have been frozen.

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

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

Additionally, when we modify or extend a loan, we give consideration to whether the borrower is in financial difficulty, and whether a concession has been granted. In determining if an interest rate concession has been granted, we consider whether the interest rate on the modified loan is equivalent to current market rates (including a premium for risk) 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. 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, and consideration of market information sources, rating and scoring services. 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 pursue 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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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.

**Consumer Loans**

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

The Company has a portfolio of \$342 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 March 31, 2012, approximately \$33 million of these loans had FICO scores of less than 620. These totals exclude held-for-sale loans. Stated income loans account for approximately \$1 million, or 22%, of our credit losses in 1-4 family residential first mortgage loans during the first three months of 2012, and were primarily in Utah and Arizona.

The Company is engaged in home equity credit line lending. At March 31, 2012, the Company's HECL portfolio totaled \$2.2 billion. Including FDIC-supported loans, approximately \$1.0 billion of the portfolio is secured by first deeds of trust, while the remaining \$1.2 billion is secured by junior liens. The outstanding balances and commitments by origination year for the junior lien HECLs are presented in the following schedule.

**JR. LIEN HECLs OUTSTANDING BALANCES AND TOTAL COMMITMENTS**

(In millions)

Year of origination	March 31, 2012		December 31, 2011	
	Outstanding balance	Total commitments	Outstanding balance	Total commitments
2012	\$ 22	\$ 50		
2011	110	204	109	206
2010	80	141	84	147
2009	79	143	83	149
2008	174	254	184	262
2007	216	290	228	299
2006 and prior	472	896	492	918
Total	\$ 1,153	\$ 1,978	\$ 1,180	\$ 1,981

More than 99% of the Company's HECL portfolio is still in the draw period, and approximately 55% is scheduled to begin amortizing within the next five years. Of the total home equity credit line portfolio, 0.51% was 90 or more days past due at March 31, 2012 as compared to 0.52% and 0.32% at December 31, 2011 and March 31, 2011, respectively. During the first quarter of 2012, the Company did not modify any home equity credit lines. The annualized credit losses for the HECL portfolio were 77 and 117 basis points for the first quarters of 2012 and 2011, respectively.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

As of March 31, 2012, loans representing approximately 17% of the outstanding balance in the HECL portfolio were estimated to have combined loan-to-value (CLTV) ratios above 100%. Estimated CLTV ratios are based on projecting values forward from the most recent valuation of the underlying collateral using home price indices at the metropolitan area level. Generally, a valuation of collateral is performed at origination. For junior lien HECLs, the estimated current balance of prior liens is added to the numerator in the calculation of CLTV. The additional breakouts for the CLTV as of March 31, 2012 and December 31, 2011 are shown in the following schedule.

**HECL PORTFOLIO BY COMBINED LOAN-TO-VALUE**

CLTV	March 31, 2012 percentage of HECL portfolio	December 31, 2011 percentage of HECL portfolio
>100%	17%	17%
90-100%	10%	11%
80-89%	15%	15%
<80%	58%	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 separate from junior lien HECLs. Refer to Note 5 of the Notes to Consolidated Financial Statements for additional information on the allowance.

***Nonperforming Assets***

As reflected in the following table, the Company's nonperforming lending-related assets as a percentage of loans and leases and OREO decreased to 2.79% at March 31, 2012, compared with 2.83% at December 31, 2011 and 4.54% at March 31, 2011.

Total nonaccrual loans, excluding FDIC-supported loans, at March 31, 2012 decreased by \$37 million from December 31, 2011. The decrease is primarily due to a \$72 million decrease in construction and land development loans, an \$18 million decrease in loans held for sale, partially offset by a \$35 million and a \$22 million increase in term loans and commercial and industrial loans, respectively. The greatest total decreases in nonaccrual loans occurred at Amegy and Vectra, while the largest increases were recorded at CB&T and ZFNB.

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

(Amounts in millions)	March 31, 2012	December 31, 2011	March 31, 2011
Nonaccrual loans	\$ 849	\$ 886	\$ 1,379
Other real estate owned	130	129	225
<b>Nonperforming lending-related assets, excluding FDIC-supported assets</b>	<b>979</b>	<b>1,015</b>	<b>1,604</b>
FDIC-supported nonaccrual loans	23	24	33
FDIC-supported other real estate owned	29	24	44
FDIC-supported nonperforming lending-related assets	52	48	77
<b>Total nonperforming lending-related assets</b>	<b>\$ 1,031</b>	<b>\$ 1,063</b>	<b>\$ 1,681</b>
Ratio of nonperforming lending-related assets to net loans and leases <sup>1</sup> and other real estate owned	2.79%	2.83%	4.54%
Accruing loans past due 90 days or more, excluding FDIC-supported loans	\$ 38	\$ 19	\$ 15
FDIC-supported loans past due 90 days or more	77	75	95
Ratio of accruing loans past due 90 days or more to net loans and leases <sup>1</sup>	0.31%	0.25%	0.30%
Nonaccrual loans and accruing loans past due 90 days or more	\$ 987	\$ 1,004	\$ 1,522
Ratio of nonaccrual loans and accruing loans past due 90 days or more to net loans and leases <sup>1</sup>	2.68%	2.69%	4.14%
Accruing loans past due 30 - 89 days, excluding FDIC-supported loans	\$ 171	\$ 184	\$ 234
FDIC-supported loans past due 30 - 89 days	14	25	22
Classified loans, excluding FDIC-supported loans	2,076	2,056	3,046

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

**Restructured Loans**

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

For certain TDRs, we split the loan into two new notes – A note and 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 are accounted for as recoveries. The outstanding balance of loans restructured using the A/B note strategy was approximately \$260 million at March 31, 2012.

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

**ACCRUING AND NONACCRUING TROUBLED DEBT RESTRUCTURED LOANS**

(In millions)	March 31, 2012	December 31, 2011	March 31, 2011
Restructured loans accruing	\$ 401	\$ 448	\$ 366
Restructured loans nonaccruing	277	296	344
<b>Total</b>	<b>\$ 678</b>	<b>\$ 744</b>	<b>\$ 710</b>

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

**TROUBLED DEBT RESTRUCTURED LOANS ROLLFORWARD**

(In millions)	Three Months Ended March 31, 2012
Balance at beginning of period	\$ 744
New identified TDRs and principal increases	88
Payments and payoffs	(67)
Charge-offs	(9)
No longer reported as TDRs	(62)
Sales and other	(16)
<b>Balance at end of period</b>	<b>\$ 678</b>

**Other Nonperforming Assets**

In addition to the lending related nonperforming assets, the Company had \$143 million in carrying value of investments in debt securities that were on nonaccrual status at March 31, 2012, compared to \$124 million and \$269 million at December 31, 2011 and March 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.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

(Amounts in millions)	Three Months	Twelve Months	Three Months
	Ended	Ended	Ended
	March 31,	December	March 31,
	2012	31,	2011
		2011	
Loans and leases outstanding (net of unearned income)	\$ 36,591	\$ 37,145	\$ 36,546
Average loans and leases outstanding (net of unearned income)	\$ 36,792	\$ 36,798	\$ 36,668
<b>Allowance for loan losses:</b>			
Balance at beginning of period	\$ 1,050	\$ 1,440	\$ 1,440
Provision charged against earnings	16	75	60
Adjustment for FDIC-supported loans	(1)	(9)	(4)
<b>Charge-offs:</b>			
Commercial	(35)	(241)	(66)
Commercial real estate	(28)	(229)	(75)
Consumer	(17)	(90)	(27)
<b>Total</b>	<b>(80)</b>	<b>(560)</b>	<b>(168)</b>
<b>Recoveries:</b>			
Commercial	10	55	13
Commercial real estate	12	35	5
Consumer	3	14	4
<b>Total</b>	<b>25</b>	<b>104</b>	<b>22</b>
<b>Net loan and lease charge-offs</b>	<b>(55)</b>	<b>(456)</b>	<b>(146)</b>
Balance at end of period	\$ 1,010	\$ 1,050	\$ 1,350
<b>Ratio of annualized net charge-offs to average loans and leases</b>	<b>0.59%</b>	<b>1.24%</b>	<b>1.59%</b>
<b>Ratio of allowance for loan losses to net loans and leases, at period end</b>	<b>2.76%</b>	<b>2.83%</b>	<b>3.69%</b>
<b>Ratio of allowance for loan losses to nonperforming loans, at period end</b>	<b>115.81%</b>	<b>115.40%</b>	<b>95.56%</b>
<b>Ratio of allowance for loan losses to nonaccrual loans and accruing loans past due 90 days or more, at period end</b>	<b>102.31%</b>	<b>104.62%</b>	<b>88.69%</b>

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

The reserve for unfunded lending commitments represents a reserve for potential losses associated with off-balance sheet commitments and standby letters of credit. The reserve is separately shown in the Company's consolidated balance sheet, and any related increases or decreases in the reserve are included in noninterest expense in the statement of income. The reserve balance decreased by \$3.7 million and \$3.5 million from December 31, 2011 and March 31, 2011 respectively. These decreases are primarily due to improved credit quality measures. See Note 5 of the Notes to Consolidated Financial Statements for additional information related to the allowance for credit losses.

#### **Interest Rate and Market Risk Management**

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



**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

***Interest Rate Risk***

Interest rate risk is one of the most significant risks to which the Company is regularly exposed. In general, our goal in managing interest rate risk is to have the net interest margin increase slightly in a rising interest rate environment. We refer to this goal as being slightly asset-sensitive. This approach is based on our belief that in a rising interest rate environment, the market cost of equity, or implied rate at which future earnings are discounted, would also tend to rise. The Company's balance sheet was more asset sensitive on March 31, 2012 than it was on December 31, 2011. Due to the low level of rates and the natural lower bound of zero for market indices, there is minimal sensitivity to falling rates at the current time. Decreasing market index rates by 200bp, with a lower bound of 0%, decreases interest income by 2% in the income simulation. However, if the Federal Reserve continues to implement its announced intent to keep interest rates at historically low levels through 2014, given the Company's asset sensitivity, it expects its net interest margin to be under modest pressure.

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

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

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

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

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

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

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

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

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

**Market Risk Fixed Income**

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

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

At March 31, 2012, the Company had \$19 million of trading assets and \$47 million of securities sold, not yet purchased, compared with \$40 million and \$44 million at December 31, 2011 and \$57 million and \$101 million at March 31, 2011, respectively.

The Company is exposed to market risk through changes in fair value. The Company is also exposed to market risk for interest rate swaps used to hedge interest rate risk. Changes in the fair value of AFS securities and in interest rate swaps that qualify as cash flow hedges are included in OCI for each financial reporting period. During the first three months of 2012, the after-tax increase in OCI attributable to AFS and HTM securities was \$24 million compared to a \$28 million decrease recorded in the same prior year period. The decrease attributable to interest rate swaps for the first quarters of 2012 and 2011 was \$3 million and \$8 million, respectively. If any of the AFS or HTM securities become other than temporarily impaired, the credit impairment is charged to operations. See *Investment Securities Portfolio* for additional information on OTTI.

***Market Risk    Equity Investments***

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

The Company holds investments in pre-public companies through various venture capital funds.

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

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

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

---

**Table of Contents****ZIONS BANCORPORATION AND SUBSIDIARIES****Liquidity Risk Management**

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

Consolidated cash and interest-bearing deposits at the Parent and its subsidiaries increased slightly to \$8.7 billion at March 31, 2012 from \$8.2 billion at December 31, 2011. This increase was a result of net loan collections, issuance of long-term debt, and an increase in deposits, partially offset by the redemption of \$700 million of the \$1.4 billion Series D Fixed-Rate Cumulative Perpetual Preferred Stock issued to the U.S. Department of the Treasury under its Troubled Asset Relief Program ( TARP ) Capital Purchase Program ( CPP ).

*Parent Company Liquidity*

The Parent's cash requirements consist primarily of debt service, investments in and advances to subsidiaries, operating expenses, income taxes, and dividends to preferred and common shareholders, including the CPP preferred equity issued to the U.S. Department of the Treasury. The Parent's cash needs are usually met through dividends from its subsidiaries, interest and investment income, subsidiaries' proportionate share of current income taxes, equity contributed through the exercise of stock options, and long-term debt and equity issuances.

During the first quarter of 2012, the Parent received common dividends totaling \$48.7 million and preferred dividends totaling \$15.4 million from its banking subsidiaries. The dividends that our bank subsidiaries can pay to the Parent are restricted by current and historical earning levels, retained earnings, and risk-based and other regulatory capital requirements. During the first quarter of 2012, all of the Company's operating segment subsidiary banks recorded a profit. We expect that this profitability will be sustained thus permitting additional payments of dividends by the banks to the Parent, and/or returns of capital to the Parent during the remainder of 2012.

The Company has held the dividend on its common stock to \$0.01 per share per quarter to conserve both capital and cash at the Parent.

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

During the first quarter of 2012, the primary sources of additional cash to the Parent in the capital markets were (1) \$300 million issuance of five-year 4.5% unsecured senior notes, proceeds net of fees and discounts were \$281 million and (2) \$55 million issuance of one- to two-year unsecured senior notes. The Parent's cash balance decreased to \$512 million at March 31, 2012 compared to a cash balance of \$956 million at December 31, 2011, mainly due to the redemption of \$700 million of the TARP Series D Preferred Stock as part of the Company's 2012 Capital Plan.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

**PARENT ONLY CONDENSED BALANCE SHEETS**

(In thousands)	March 31, 2012	December 31, 2011	March 31, 2011
<b>ASSETS</b>			
Cash and due from banks	\$ 2,019	\$ 11	\$ 2,011
Interest-bearing deposits	510,383	956,476	507,099
Investment securities:			
Held-to-maturity, at adjusted cost (approximate fair value of \$18,598, \$13,019 and \$15,738)	23,956	20,118	15,166
Available-for-sale, at fair value	385,628	382,880	1,179,271
Loans, net of unearned fees of \$0, \$0 and \$0 and allowance for loan losses of \$0, \$33 and \$31		1,495	1,497
Other noninterest-bearing investments	52,731	52,903	52,448
Investments in subsidiaries:			
Commercial banks and bank holding company	7,159,648	7,070,620	6,803,545
Other operating companies	44,175	45,043	71,469
Nonoperating ZMFU II, Inc. <sup>1</sup>	92,848	92,751	93,102
Receivables from subsidiaries:			
Other operating companies	20,000	190	1,400
Other assets	281,529	285,971	293,122
	\$ 8,572,917	\$ 8,908,458	\$ 9,020,130
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Other liabilities	\$ 87,286	\$ 104,829	\$ 189,718
Commercial paper:			
Due to affiliates	45,991	45,995	45,984
Due to others	2,481	3,063	18,163
Other short-term borrowings			
Due to affiliates	14	5	101,818
Due to others	16,900	66,883	160,645
Subordinated debt to affiliated trusts	309,278	309,278	309,278
Long-term debt			
Due to affiliates	10	53	93,218
Due to others	1,721,844	1,393,044	1,355,454
Total liabilities	2,183,804	1,923,150	2,274,278
Shareholders' equity:			
Preferred stock	1,737,633	2,377,560	2,162,399
Common stock	4,162,522	4,163,242	4,178,369
Retained earnings	1,060,525	1,036,590	904,247
Accumulated other comprehensive income (loss)	(571,567)	(592,084)	(499,163)
Total shareholders' equity	6,389,113	6,985,308	6,745,852

\$ 8,572,917   \$ 8,908,458   \$ 9,020,130

<sup>1</sup> *ZMFU II, Inc. is a wholly-owned nonoperating subsidiary whose sole purpose is to hold a portfolio of municipal bonds, loans and leases.* During the first quarters of 2012 and 2011, the Parent's operating expenses included cash payments for interest of approximately \$36 million and \$40 million, respectively. Additionally, the Parent paid approximately \$41 million and \$35 million of dividends on preferred stock and common stock, respectively,

---

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

for the same applicable periods.

Repayments of short-term borrowings by the Parent exceeded new issuances, which resulted in net cash outflows of \$51 million during the first quarter of 2012.

At March 31, 2012, maturities of the Company's long-term senior and subordinated debt ranged from June 2012 to March 2017.

*Subsidiary Bank Liquidity*

The subsidiary banks' primary source of funding is their core deposits, consisting of demand, savings and money market deposits, time deposits under \$100,000, and foreign deposits. At March 31, 2012, these core deposits, excluding brokered deposits, in aggregate, constituted 95.5% of consolidated deposits, compared with 95.4% of consolidated deposits at December 31, 2011. On a consolidated basis, the Company's net loan to total deposit ratio is at a historical low of 84.9%, as compared to 86.6% as of December 31, 2011 and 90.0% as of March 31, 2011.

Historically, the Company's subsidiary banks have also obtained brokered deposits to serve as an additional source of liquidity, which is currently not needed. During the first quarter of 2012, total brokered deposits increased slightly by \$10 million to \$214 million at March 31, 2012 from \$204 million at December 31, 2011. Brokered deposits are 0.5% of total deposits at March 31, 2012.

Total deposits increased by \$223 million during the first quarter of 2012 mainly due to a combined increase of \$444 million in Savings and NOW and money market deposits. Noninterest-bearing demand deposits also increased during the first quarter by \$74 million. These increases were partially offset by a combined decrease in time and foreign deposits of \$295 million.

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

The FHLB system has, from time to time, been a significant source of funding and back-up liquidity for each of the Company's subsidiary banks. Zions Bank, TCBW, and TCBO are members of the FHLB of Seattle. CB&T, NSB, and NBA are members of the FHLB of San Francisco. Vectra is a member of the FHLB of Topeka and Amegy Bank is a member of the FHLB of Dallas. The FHLB allows member banks to borrow against their eligible loans to satisfy liquidity requirements. The subsidiary banks are required to invest in FHLB stock to maintain their borrowing capacity. At March 31, 2012, the amount available for additional FHLB and Federal Reserve borrowings was approximately \$13.5 billion. At March 31, 2012 the Company had a de minimus amount of long-term borrowings outstanding with the FHLB—approximately \$24 million, which was essentially unchanged from the December 31, 2011 balance. At March 31, 2012 and December 31, 2011, the subsidiary banks' total investment in FHLB stock was approximately \$114 million and \$116 million, respectively.

The Company's investment activities can provide or use cash, depending on the asset-liability management posture that is taken. For the first quarter of 2012, investment securities' activities resulted in a decrease in investment securities holdings and a net increase of cash in the amount of \$46 million.

## **Table of Contents**

### **ZIONS BANCORPORATION AND SUBSIDIARIES**

Maturing balances in our subsidiary banks' loan portfolios also provide additional flexibility in managing cash flows. Contraction in lending activity for the first quarter of 2012 resulted in a net cash inflow of \$415 million compared to a net cash outflow of \$45 million for the first quarter of 2011.

During the first quarters of 2012 and 2011, the Company received net cash income tax refunds of \$21.7 million and \$0.1 million, respectively, the majority of which was for the benefit of our subsidiary banks and the remainder for the benefit of the Parent.

A more comprehensive discussion of our liquidity management is contained in Zions' 2011 Annual Report on Form 10-K.

### **Operational Risk Management**

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

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

### **CAPITAL MANAGEMENT**

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

Note 7 of the Notes to Consolidated Financial Statements provides additional information on the Company's debt and equity transactions during the first quarter of 2012 and its projected transactions during the second quarter of 2012.

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

On March 28, 2012, the Company redeemed \$700 million, or 50%, of its Series D Fixed-Rate Cumulative Perpetual Preferred Stock issued to the U.S. Department of the Treasury under its TARP CPP.



**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

Total controlling interest shareholders' equity at March 31, 2012 was \$6,389 million compared to \$6,985 million at December 31, 2011, a decrease of 8.5%. The decrease in total controlling interest shareholders' equity from December 31, 2011 is primarily due to the redemption of \$700 million of the Series D Preferred Stock previously discussed and \$40.8 million of dividends paid on preferred and common stock, partially offset by \$89.7 million of net income applicable to controlling interest and \$24.0 million improvement in net unrealized losses on investment securities recorded in other comprehensive income. The improvement in net unrealized losses on investment securities recorded in the first quarter of 2012 was a result of slightly lower risk premiums on and faster prepayment of selected investment securities.

The Company paid \$1.8 million in dividends on common stock during the first quarter of 2012. The dividends paid per share of \$0.01 were unchanged from the rate paid since the third quarter of 2009. Under the terms of the CPP, the Company may not increase the dividend on its common stock above \$0.32 per share per quarter during the period the senior preferred shares are outstanding without adversely impacting the Company's interest in the program or without permission from the U.S. Department of the Treasury. The Company's Capital Plan submitted to the Federal Reserve maintains the current common stock dividend of \$0.01 per share throughout 2012.

The Company recorded preferred stock dividends of \$64.2 million and \$38.1 million during the first quarters of 2012 and 2011, respectively. Preferred dividends for the first quarters of 2012 and 2011 include \$42.6 million and \$22.8 million, respectively, related to the TARP preferred stock issued to the U.S. Department of the Treasury, consisting of cash payments of \$17.4 million and \$17.5 million in the first quarters of 2012 and 2011, respectively, and accretion of \$25.2 million and \$5.3 million in the first quarters of 2012 and 2011, respectively, for the difference between the fair value and par amount of the TARP preferred stock when issued.

Conversions of convertible subordinated debt into preferred stock have augmented the Company's capital position and reduced future refinancing needs. From the original modification in June 2009 through March 31, 2012, \$692 million of debt has been extinguished and \$808 million of preferred capital has been added. The following schedule shows the effect the conversions had on Tier 1 capital and outstanding convertible subordinated debt during 2011 and during the first quarter of 2012.

On April 19, 2012, the Company filed a Form 8-K disclosing that as of April 18, 2012, holders of subordinated notes elected to convert a combined \$50.2 million principal amount of these notes into the Company's preferred stock. The Company expects an additional 50,192 shares of Series C preferred stock will be issued when the conversions close on May 15, 2012 (for the subordinated notes due May 15, 2014) and May 16, 2012 (for the subordinated notes due November 16, 2015), unless the elections are revoked prior to those dates. Also, \$8.5 million of the original beneficial conversion feature will be reclassified into preferred stock from common stock as a result of this conversion. The expected pretax accelerated discount amortization attributable to the conversions will be approximately \$16.2 million in the second quarter of 2012, compared to \$12.2 million in the first quarter of 2012.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

**IMPACT OF CONVERTIBLE SUBORDINATED DEBT**

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

<sup>1</sup> Reflects the expected conversion of subordinated debt into preferred stock in May 2012 and the associated accelerated convertible subordinated debt amortization and beneficial conversion feature transferred from common stock to preferred stock.

On May 7, 2012, the Company issued \$143.75 million of a new series of Tier 1 Capital qualifying perpetual preferred stock at a dividend of 7.9%, the proceeds of which it expects to use to redeem all outstanding shares of its Series E fixed-rate resettable non-cumulative perpetual preferred stock. The Series E securities, which have an aggregate par amount of \$142.5 million and current dividend of 11%, are callable on June 15, 2012. The issuance of the new Series F preferred stock and redemption of the Series E preferred stock will reduce preferred stock dividends paid by the Company by approximately \$4.3 million per year.

Banking organizations are required under published regulations to maintain adequate levels of capital as measured by several regulatory capital ratios. As of March 31, 2012, the Company's capital ratios were as follows:

**CAPITAL RATIOS**

March 31, 2012	December 31, 2011	March 31, 2011
-------------------	----------------------	-------------------

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Tangible common equity ratio	6.89%	6.77%	7.01%
Tangible equity ratio	10.24%	11.33%	11.36%
Average equity to average assets (three months ended)	13.31%	13.27%	13.25%
Risk-based capital ratios:			
Tier 1 common to risk-weighted assets	9.71%	9.57%	9.32%
Tier 1 leverage	12.17%	13.40%	13.14%
Tier 1 risk-based capital	14.83%	16.13%	15.46%
Total risk-based capital	16.76%	18.06%	17.77%

## **Table of Contents**

### **ZIONS BANCORPORATION AND SUBSIDIARIES**

At March 31, 2012, regulatory Tier 1 risk-based capital and total risk-based capital were \$6,333 million and \$7,157 million compared to \$6,946 million and \$7,780 million at December 31, 2011, and \$6,576 million and \$7,558 million at March 31, 2011, respectively.

### **GAAP to NON-GAAP RECONCILIATIONS**

#### **1. Tier 1 common equity**

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

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

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

**TIER 1 COMMON EQUITY (NON-GAAP)**

(Amounts in millions)	March 31, 2012	December 31, 2011	March 31, 2011
Controlling interest shareholders equity (GAAP)	\$ 6,389	\$ 6,985	\$ 6,746
Accumulated other comprehensive loss (income)	572	592	499
Non-qualifying goodwill and intangibles	(1,079)	(1,083)	(1,097)
Disallowed deferred tax assets			(18)
Other regulatory adjustments	3	4	(2)
Qualifying trust preferred securities	448	448	448
<b>Tier 1 capital (regulatory)</b>	<b>6,333</b>	<b>6,946</b>	<b>6,576</b>
Qualifying trust preferred securities	(448)	(448)	(448)
Preferred stock	(1,738)	(2,377)	(2,162)
<b>Tier 1 common equity (non-GAAP)</b>	<b>\$ 4,147</b>	<b>\$ 4,121</b>	<b>\$ 3,966</b>
<b>Risk-weighted assets (regulatory)</b>	<b>\$ 42,704</b>	<b>\$ 43,077</b>	<b>\$ 42,535</b>
Tier 1 common to risk-weighted assets (non-GAAP)	9.71%	9.57%	9.32%

**2. Core net interest margin**

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

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

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

	March 31, 2012	Three Months Ended December 31, 2011	March 31, 2011
Net interest margin as reported (GAAP)	3.73%	3.86%	3.76%
Adjust for the impact on net interest margin of:			
Discount amortization on convertible subordinated debt	0.09%	0.09%	0.11%
Accelerated discount amortization on convertible subordinated debt	0.10%	0.05%	0.36%
Additional accretion of interest income on acquired loans	(0.11)%	(0.14)%	(0.17)%
<b>Core net interest margin (non-GAAP)</b>	<b>3.81%</b>	<b>3.86%</b>	<b>4.06%</b>

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

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

## Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

The schedule on page 57 provides a reconciliation of income before income taxes (GAAP) to income before income taxes and subordinated debt conversions (non-GAAP).

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

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

(Amounts in millions)	March 31, 2012	December 31, 2011	March 31, 2011
Total shareholders equity (GAAP)	\$ 6,387	\$ 6,983	\$ 6,745
Goodwill	(1,015)	(1,015)	(1,015)
Core deposit and other intangibles	(64)	(68)	(82)
Tangible equity (non-GAAP) (a)	5,308	5,900	5,648
Preferred stock	(1,738)	(2,377)	(2,162)
Noncontrolling interests	2	2	1
Tangible common equity (non-GAAP) (b)	\$ 3,572	\$ 3,525	\$ 3,487
Total assets (GAAP)	\$ 52,896	\$ 53,149	\$ 50,808
Goodwill	(1,015)	(1,015)	(1,015)
Core deposit and other intangibles	(64)	(68)	(82)
Tangible assets (non-GAAP) (c)	\$ 51,817	\$ 52,066	\$ 49,711
Tangible equity ratio (a/c)	10.24%	11.33%	11.36%
Tangible common equity ratio (b/c)	6.89%	6.77%	7.01%

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

We believe that excluding the amounts associated with these adjustments to present the non-GAAP financial measures provides a meaningful base for period-to-period and company-to-company comparisons, which will assist regulators, investors, and analysts in analyzing the operating results or financial position of the Company and in predicting future performance. These non-GAAP financial measures are used by management and the Board of Directors to assess the performance of the Company's business or its financial position for evaluating bank reporting segment performance, for presentations of Company performance to investors, and for other reasons as may be requested by investors and analysts. We further believe that presenting these non-GAAP financial measures will permit investors and analysts to assess the performance of the Company on the same basis as that applied by management and the Board of Directors.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. Although these non-GAAP financial measures are frequently used by stakeholders to evaluate a company, they have limitations as an analytical tool, and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP.

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

## Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

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



**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

ITEM 4. **CONTROLS AND PROCEDURES**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2012. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2012. There were no material changes in the Company's internal control over financial reporting during the first quarter of 2012.

PART II. **OTHER INFORMATION**ITEM 1. **LEGAL PROCEEDINGS**

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

ITEM 1A. **RISK FACTORS**

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

ITEM 2. **UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Share Repurchases**

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

Period	Total number of shares repurchased <sup>1</sup>	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plan
January	14,519	\$ 18.38		\$
February	15,214	17.05		
March	157	18.99		
First quarter	29,890	17.71		

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

ITEM 6. EXHIBITS

a) Exhibits

Exhibit Number	Description	*
3.1	Restated Articles of Incorporation of Zions Bancorporation dated November 8, 1993, incorporated by reference to Exhibit 3.1 of Form S-4 filed on November 22, 1993.	*

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

Exhibit Number	Description	
3.11	Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation dated June 1, 2010, incorporated by reference to Exhibit 3.1 of Form 8-K filed June 3, 2010.	*
3.12	Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation dated June 14, 2010, incorporated by reference to Exhibit 3.1 of Form 8-K filed June 15, 2010.	*
3.13	Restated Bylaws of Zions Bancorporation dated November 8, 2011, incorporated by reference to Exhibit 3.13 of Form 10-Q for the quarter ended September 30, 2011.	*
31.1	Certification by Chief Executive Officer required by Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (filed herewith).	
31.2	Certification by Chief Financial Officer required by Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (filed herewith).	
32	Certification by Chief Executive Officer and Chief Financial Officer required by Sections 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m) and 18 U.S.C. Section 1350 (furnished herewith).	
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011, (ii) the Consolidated Statements of Income for the three months ended March 31, 2012 and March 31, 2011, (iii) the Consolidated Statements of Comprehensive Income for the three months ended March 31, 2012 and March 31, 2011, (iv) the Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2012 and March 31, 2011, (v) the Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and March 31, 2011 and (vi) the Notes to the Consolidated Financial Statements (furnished herewith).	

\* *Incorporated by reference*

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

**SIGNATURES**

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

ZIONS BANCORPORATION

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

/s/ Doyle L. Arnold  
Doyle L. Arnold, Vice Chairman and Chief Financial  
Officer

Date: May 10, 2012