ZIONS BANCORPORATION /UT/
Form 10-Q
May 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2013

or

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

For the transition period from to

COMMISSION FILE NUMBER 001-12307

ZIONS BANCORPORATION
(Exact name of registrant as specified in its charter)

UTAH	87-0227400
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One South Main, 15th Floor Salt Lake City, Utah	84133
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

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

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

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

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, 2013	184,249,786 shares

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

(In thousands, except share amounts)	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and due from banks	$928,817	$1,841,907
Money market investments:		
Interest-bearing deposits	5,785,268	5,978,978
Federal funds sold and security resell agreements	2,340,177	2,775,354
Investment securities:		
Held-to-maturity, at adjusted cost (approximate fair value $684,668 and $674,741)	736,158	756,909
Available-for-sale, at fair value	3,287,844	3,091,310
Trading account, at fair value	28,301	28,290
	4,052,303	3,876,509
Loans held for sale	161,559	251,651
Loans, net of unearned income and fees:		
Loans and leases	37,284,694	37,137,006
FDIC-supported loans	477,725	528,241
	37,762,419	37,665,247
Less allowance for loan losses	841,781	896,087
Loans, net of allowance	36,920,638	36,769,160
Other noninterest-bearing investments	855,388	855,462
Premises and equipment, net	706,746	708,882
Goodwill	1,014,129	1,014,129
Core deposit and other intangibles	47,000	50,818
Other real estate owned	89,904	98,151
Other assets	1,208,635	1,290,917
	$54,110,564	$55,511,918
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Deposits:		
Noninterest-bearing demand	$17,311,150	$18,469,458
Interest-bearing:		
Savings and money market	22,760,397	22,896,624
Time	2,889,903	2,962,931
Foreign	1,528,745	1,804,060
	44,490,195	46,133,073
Securities sold, not yet purchased	1,662	26,735
Federal funds purchased and security repurchase agreements	325,107	320,478
Other short-term borrowings	—	5,409
Long-term debt	2,352,569	2,337,113
Reserve for unfunded lending commitments	100,455	106,809

Other liabilities	489,923	533,660
Total liabilities	47,759,911	49,463,277
Shareholders' equity:		
Preferred stock, without par value, authorized 4,400,000 shares	1,301,289	1,128,302
Common stock, without par value; authorized 350,000,000 shares; issued and outstanding 184,246,471 and 184,199,198 shares	4,170,888	4,166,109
Retained earnings	1,290,131	1,203,815
Accumulated other comprehensive income (loss)	(406,903)	(446,157)
Controlling interest shareholders' equity	6,355,405	6,052,069
Noncontrolling interests	(4,752)	(3,428)
Total shareholders' equity	6,350,653	6,048,641
	$54,110,564	$55,511,918

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended March 31,	
	2013	2012
Interest income:		
Interest and fees on loans	$453,433	$481,794
Interest on money market investments	5,439	4,628
Interest on securities:		
Held-to-maturity	7,974	8,959
Available-for-sale	17,712	23,158
Trading account	190	338
Total interest income	484,748	518,877
Interest expense:		
Interest on deposits	15,642	23,413
Interest on short-term borrowings	92	779
Interest on long-term debt	50,899	57,207
Total interest expense	66,633	81,399
Net interest income	418,115	437,478
Provision for loan losses	(29,035)	15,664
Net interest income after provision for loan losses	447,150	421,814
Noninterest income:		
Service charges and fees on deposit accounts	43,580	43,532
Other service charges, commissions and fees	42,731	39,047
Trust and wealth management income	6,994	6,374
Capital markets and foreign exchange	7,486	5,734
Dividends and other investment income	12,724	9,480
Loan sales and servicing income	10,951	8,352
Fair value and nonhedge derivative loss	(5,445)	(4,400)
Equity securities gains, net	2,832	9,145
Fixed income securities gains, net	3,299	720
Impairment losses on investment securities:		
Impairment losses on investment securities	(31,493)	(18,273)
Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income)	21,376	8,064
Net impairment losses on investment securities	(10,117)	(10,209)
Other	6,184	4,045
Total noninterest income	121,219	111,820
Noninterest expense:		
Salaries and employee benefits	229,789	224,634
Occupancy, net	27,389	27,951
Furniture and equipment	26,074	26,792
Other real estate expense	1,977	7,810
Credit-related expense	10,482	13,485
Provision for unfunded lending commitments	(6,354)	(3,704)
Legal and professional services	10,471	11,096
Advertising	5,893	5,807

FDIC premiums	9,711	10,919
Amortization of core deposit and other intangibles	3,819	4,291
Other	78,097	63,291
Total noninterest expense	397,348	392,372
Income before income taxes	171,021	141,262
Income taxes	60,634	51,859
Net income	110,387	89,403
Net loss applicable to noncontrolling interests	(336)	(273)
Net income applicable to controlling interest	110,723	89,676
Preferred stock dividends	(22,399)	(64,187)
Net earnings applicable to common shareholders	$88,324	$25,489
Weighted average common shares outstanding during the period:		
Basic shares	183,396	182,798
Diluted shares	183,655	182,964
Net earnings per common share:		
Basic	$0.48	$0.14
Diluted	0.48	0.14

See accompanying notes to consolidated financial statements.

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

(In thousands)	Three Months Ended March 31, 2013	2012
Net income	$110,387	$89,403
Other comprehensive income (loss), net of tax:		
Net realized and unrealized holding gains on investments	48,796	22,614
Reclassification for net losses on investments included in earnings	3,962	5,798
Noncredit-related impairment losses on securities not expected to be sold	(12,754)	(4,980)
Accretion of securities with noncredit-related impairment losses not expected to be sold	209	165
Net unrealized losses on derivative instruments	(959)	(3,080)
Other comprehensive income	39,254	20,517
Comprehensive income	149,641	109,920
Comprehensive loss applicable to noncontrolling interests	(336)	(273)
Comprehensive income applicable to controlling interest	$149,977	$110,193

See accompanying notes to consolidated financial statements.

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

(In thousands, except share and per share amounts)	Preferred stock	Common stock		Retained earnings	Accumulated other comprehensive income (loss)	Noncontrolling interests	Total shareholders' equity
		Shares	Amount				
Balance at December 31, 2012	$1,128,302	184,199,198	$4,166,109	$1,203,815	$(446,157)	$(3,428)	$6,048,641
Net income (loss) for the period				110,723		(336)	110,387
Other comprehensive income					39,254		39,254
Issuance of preferred stock	171,827		(3,076)				168,751
Subordinated debt converted to preferred stock	1,160		(169)				991
Net activity under employee plans and related tax benefits		47,273	7,438				7,438
Dividends on preferred stock				(22,399)			(22,399)
Dividends on common stock, $0.01 per share				(1,833)			(1,833)
Change in deferred compensation				(175)			(175)
Other changes in noncontrolling interests			586			(988)	(402)
Balance at March 31, 2013	$1,301,289	184,246,471	$4,170,888	$1,290,131	$(406,903)	$(4,752)	$6,350,653
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)
				(1,843)			(1,843)

Dividends on common stock, $0.01 per share							
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

See accompanying notes to consolidated financial statements.

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

(In thousands)	Three Months Ended March 31, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	$110,387	$89,403
Adjustments to reconcile net income to net cash provided by operating activities:		
Net impairment losses on investment securities	10,117	10,209
Provision for credit losses	(35,389)	11,960
Depreciation and amortization	46,233	57,143
Deferred income tax expense	1,282	19,685
Net decrease (increase) in trading securities	(11)	21,240
Net decrease in loans held for sale	89,996	20,913
Net write-downs of and gains/losses from sales of other real estate owned	53	7,832
Change in other liabilities	(48,477)	(18,799)
Change in other assets	51,580	50,425
Other, net	(15,505)	(21,916)
Net cash provided by operating activities	210,266	248,095
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease (increase) in money market investments	628,887	(558,979)
Proceeds from maturities and paydowns of investment securities held-to-maturity	53,612	20,579
Purchases of investment securities held-to-maturity	(45,800)	(9,277)
Proceeds from sales, maturities, and paydowns of investment securities available-for-sale	359,223	440,982
Purchases of investment securities available-for-sale	(486,975)	(406,303)
Proceeds from sales of loans and leases	6,011	26,309
Net loan and lease collections (originations)	(134,837)	415,411
Net decrease in other noninterest-bearing investments	7,388	5,729
Net purchases of premises and equipment	(15,800)	(15,162)
Proceeds from sales of other real estate owned	27,974	39,399
Net cash paid for divestitures	—	(22,568)
Net cash provided by (used in) investing activities	399,683	(63,880)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	(1,642,878)	252,837
Net change in short-term funds borrowed	(25,853)	(168,831)
Proceeds from issuance of long-term debt	19,362	332,750
Repayments of long-term debt	(18,398)	(141)
Cash paid for preferred stock redemption	—	(700,000)
Proceeds from issuances of common and preferred stock	169,399	342
Dividends paid on common and preferred stock	(24,232)	(40,796)
Other, net	(439)	(2,540)

Net cash used in financing activities	(1,523,039)	(326,379)
Net decrease in cash and due from banks	(913,090)	(142,164)
Cash and due from banks at beginning of period	1,841,907	1,224,350
Cash and due from banks at end of period	$928,817	$1,082,186
Cash paid for interest	$62,131	$62,789
Net cash paid (refund received) for income taxes	3,565	(21,668)

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
March 31, 2013

1. BASIS OF PRESENTATION
The accompanying unaudited consolidated financial statements of Zions Bancorporation ("the Parent") and its majority-owned subsidiaries (collectively "the Company," "Zions," "we," "our," "us") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. References to GAAP, including standards 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 months ended March 31, 2013 and 2012 are not necessarily indicative of the results that may be expected in future periods. The consolidated balance sheet at December 31, 2012 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 2012 Annual Report on Form 10-K.

The Company provides a full range of banking and related services through subsidiary banks 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 ("NBAZ"); 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 and its subsidiary banks also own and operate certain nonbank subsidiaries that engage in financial services.

2. SUPPLEMENTAL CASH FLOW INFORMATION
Noncash activities are summarized as follows:

(In thousands)	Three Months Ended March 31,	
	2013	2012
Loans transferred to other real estate owned	$23,442	$52,575
Beneficial conversion feature transferred from common stock to preferred stock as a result of subordinated debt conversions	169	5,065
Subordinated debt converted to preferred stock	991	29,774

3. CASH AND MONEY MARKET INVESTMENTS
Effective January 1, 2013, we adopted ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, which limited the scope of ASU 2011-11, Disclosures about Offsetting Assets and Liabilities. This new guidance under ASC 210, Balance Sheet, applies to the offsetting of derivatives (including bifurcated embedded derivatives), repurchase agreements and reverse repurchase (or resell) agreements, and securities borrowing and lending transactions. To provide convergence with disclosures under International Financial Reporting Standards ("IFRS"), the new guidance requires entities to present both gross and net information about these financial instruments, including those subject to a master netting arrangement. The change in disclosure is required on a retrospective basis

for all prior periods presented.

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Security resell and repurchase agreements are offset in the balance sheet according to master netting agreements. Derivative instruments may be offset under their master netting agreements; however, for accounting purposes, we present these items on a gross basis in the Company's balance sheet. See Note 6 for further information regarding derivative instruments.

Gross and net information for selected financial instruments in the balance sheet is as follows:

(In thousands)	March 31, 2013			Gross amounts not offset in the balance sheet		
Description	Gross amounts recognized	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Financial instruments	Cash collateral received/pledged	Net amount
Assets:						
Federal funds sold and security resell agreements	$2,590,177	$(250,000)	$2,340,177	$—	$ —	$2,340,177
Derivatives (included in other assets)	71,994	—	71,994	(255)	—	71,739
	$2,662,171	$(250,000)	$2,412,171	$(255)	$ —	$2,411,916
Liabilities:						
Federal funds purchased and security repurchase agreements	$575,107	$(250,000)	$325,107	$—	$ —	$325,107
Derivatives (included in other liabilities)	79,712	—	79,712	(255)	(72,882)	6,575
	$654,819	$(250,000)	$404,819	$(255)	$ (72,882)	$331,682

(In thousands)	December 31, 2012			Gross amounts not offset in the balance sheet		
Description	Gross amounts recognized	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Financial instruments	Cash collateral received/pledged	Net amount
Assets:						
Federal funds sold and security resell agreements	$3,675,354	$(900,000)	$2,775,354	$—	$ —	$2,775,354
Derivatives (included in other assets)	81,810	—	81,810	(409)	—	81,401
	$3,757,164	$(900,000)	$2,857,164	$(409)	$ —	$2,856,755
Liabilities:						

Federal funds purchased and security repurchase agreements	$1,220,478	$(900,000)	$320,478	$—	$ —	$320,478
Derivatives (included in other liabilities)	89,100	—	89,100	(409)	(81,683)	7,008
	$1,309,578	$(900,000)	$409,578	$(409)	$ (81,683)	$327,486

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ZIONS BANCORPORATION AND SUBSIDIARIES

4. INVESTMENT SECURITIES

Investment securities are summarized below. Note 9 discusses the process to estimate fair value for investment securities.

	March 31, 2013						
		Recognized in OCI [1]			Not recognized in OCI		
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Held-to-maturity							
Municipal securities	$517,199	$—	$—	$517,199	$13,134	$912	$529,421
Asset-backed securities:							
Trust preferred securities – banks and insurance	255,238	—	55,675	199,563	2,599	58,743	143,419
Other	21,695	—	2,399	19,296	779	8,347	11,728
Other debt securities	100	—	—	100	—	—	100
	$794,232	$—	$58,074	$736,158	$16,512	$68,002	$684,668
Available-for-sale							
U.S. Treasury securities	$54,346	$188	$—	$54,534			$54,534
U.S. Government agencies and corporations:							
Agency securities	273,658	3,418	80	276,996			276,996
Agency guaranteed mortgage-backed securities	372,863	17,075	74	389,864			389,864
Small Business Administration loan-backed securities	1,086,540	29,503	785	1,115,258			1,115,258
Municipal securities	69,808	2,327	1,227	70,908			70,908
Asset-backed securities:							
Trust preferred securities – banks and insurance	1,571,338	21,991	590,105	1,003,224			1,003,224
Trust preferred securities – real estate investment trusts	40,548	—	23,242	17,306			17,306
Auction rate securities	6,505	80	61	6,524			6,524
Other	22,903	626	4,286	19,243			19,243
	3,498,509	75,208	619,860	2,953,857			2,953,857
Mutual funds and other	336,171	160	2,344	333,987			333,987
	$3,834,680	$75,368	$622,204	$3,287,844			$3,287,844

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ZIONS BANCORPORATION AND SUBSIDIARIES

	December 31, 2012						
		Recognized in OCI [1]			Not recognized in OCI		
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Held-to-maturity							
Municipal securities	$524,738	$—	$—	$524,738	$12,837	$709	$536,866
Asset-backed securities:							
Trust preferred securities – banks and insurance	255,647	—	42,964	212,683	114	86,596	126,201
Other	21,858	—	2,470	19,388	709	8,523	11,574
Other debt securities	100	—	—	100	—	—	100
	$802,343	$—	$45,434	$756,909	$13,660	$95,828	$674,741
Available-for-sale							
U.S. Treasury securities	$104,313	$211	$—	$104,524			$104,524
U.S. Government agencies and corporations:							
Agency securities	108,814	3,959	116	112,657			112,657
Agency guaranteed mortgage-backed securities	406,928	18,598	16	425,510			425,510
Small Business Administration loan-backed securities	1,124,322	29,245	639	1,152,928			1,152,928
Municipal securities	75,344	2,622	1,970	75,996			75,996
Asset-backed securities:							
Trust preferred securities – banks and insurance	1,596,156	16,687	663,451	949,392			949,392
Trust preferred securities – real estate investment trusts	40,485	—	24,082	16,403			16,403
Auction rate securities	6,504	79	68	6,515			6,515
Other	25,614	701	6,941	19,374			19,374
	3,488,480	72,102	697,283	2,863,299			2,863,299
Mutual funds and other	228,469	194	652	228,011			228,011
	$3,716,949	$72,296	$697,935	$3,091,310			$3,091,310

[1]The gross unrealized losses recognized in other comprehensive income (“OCI”) on held-to-maturity (“HTM”) securities primarily resulted from a previous transfer of available-for-sale (“AFS”) securities to HTM.

The amortized cost and estimated fair value of investment debt securities are shown subsequently as of March 31, 2013 by expected maturity distribution for structured asset-backed collateralized debt obligations and by contractual maturity distribution for other debt securities. Actual maturities may differ from expected or contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	Held-to-maturity		Available-for-sale	
(In thousands)	Amortized cost	Estimated fair	Amortized cost	Estimated fair

		value		value
Due in one year or less	$56,850	$56,822	$475,173	$445,900
Due after one year through five years	176,522	175,404	1,080,560	1,001,467
Due after five years through ten years	191,103	163,282	644,020	582,997
Due after ten years	369,757	289,160	1,298,756	923,493
	$794,232	$684,668	$3,498,509	$2,953,857

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ZIONS BANCORPORATION AND SUBSIDIARIES

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

	March 31, 2013					
	Less than 12 months		12 months or more		Total	
(In thousands)	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value
Held-to-maturity						
Municipal securities	$885	$43,048	$27	$2,899	$912	$45,947
Asset-backed securities:						
Trust preferred securities – banks and insurance	97	56	114,321	143,363	114,418	143,419
Other	—	—	10,746	11,233	10,746	11,233
	$982	$43,104	$125,094	$157,495	$126,076	$200,599
Available-for-sale						
U.S. Government agencies and corporations:						
Agency securities	$7	$8,199	$73	$6,954	$80	$15,153
Agency guaranteed mortgage-backed securities	70	13,190	4	568	74	13,758
Small Business Administration loan-backed securities	55	14,056	730	62,081	785	76,137
Municipal securities	18	2,487	1,209	9,407	1,227	11,894
Asset-backed securities:						
Trust preferred securities – banks and insurance	—	—	590,105	827,166	590,105	827,166
Trust preferred securities – real estate investment trusts	—	—	23,242	17,306	23,242	17,306
Auction rate securities	—	—	61	2,465	61	2,465
Other	—	—	4,286	15,475	4,286	15,475
	150	37,932	619,710	941,422	619,860	979,354
Mutual funds and other	2,344	127,748	—	—	2,344	127,748
	$2,494	$165,680	$619,710	$941,422	$622,204	$1,107,102

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(In thousands)	December 31, 2012 Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value
Held-to-maturity						
Municipal securities	$630	$42,613	$79	$5,910	$709	$48,523
Asset-backed securities:						
Trust preferred securities – banks and insurance	—	—	129,560	126,019	129,560	126,019
Other	—	—	10,993	10,904	10,993	10,904
Other debt securities	—	—	—	—	—	—
	$630	$42,613	$140,632	$142,833	$141,262	$185,446
Available-for-sale						
U.S. Government agencies and corporations:						
Agency securities	$35	$18,633	$81	$6,916	$116	$25,549
Agency guaranteed mortgage-backed securities	10	6,032	6	629	16	6,661
Small Business Administration loan-backed securities	91	15,199	548	69,011	639	84,210
Municipal securities	61	4,898	1,909	11,768	1,970	16,666
Asset-backed securities:						
Trust preferred securities – banks and insurance	—	—	663,451	765,421	663,451	765,421
Trust preferred securities – real estate investment trusts	—	—	24,082	16,403	24,082	16,403
Auction rate securities	—	—	68	2,459	68	2,459
Other	—	—	6,941	15,234	6,941	15,234
	197	44,762	697,086	887,841	697,283	932,603
Mutual funds and other	652	112,324	—	—	652	112,324
	$849	$157,086	$697,086	$887,841	$697,935	$1,044,927

At March 31, 2013 and December 31, 2012, respectively, 102 and 84 HTM and 239 and 256 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 (the vast majority of the investment portfolio are debt securities). 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 using the effective interest rate method to the credit-adjusted expected cash flow amounts of the securities over future periods.

Our 2012 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, 2013:

OTTI – Municipal Securities
The HTM securities are purchased directly from municipalities and are generally not rated by a credit rating agency. Most of the AFS securities are rated as investment grade by various credit rating agencies. Both the HTM and AFS securities are at fixed and variable rates with maturities from one to 25 years. Fair value changes of these securities are largely driven by interest rates. We perform credit quality reviews on these securities at each reporting period. Because the decline in fair value is not attributable to credit quality, no OTTI for these securities was recorded for the three months ended March 31, 2013.

OTTI – Asset-Backed Securities
Trust preferred securities – banks and insurance: These collateralized debt obligation ("CDO") securities are interests in variable rate pools of trust preferred securities issued by trusts related to bank holding companies and insurance companies ("collateral issuers"). They are rated by one or more Nationally Recognized Statistical Rating Organizations ("NRSROs"), which are rating agencies registered with the Securities and Exchange Commission ("SEC"). The more junior securities were purchased generally at par, while the senior securities were purchased from Lockhart Funding LLC ("Lockhart") at their carrying values (generally par) and then adjusted to their lower fair values. 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 high. The financial crisis and economic downturn resulted in significant utilization of both the unique five-year deferral option, which each collateral issuer maintains during the life of the CDO, and the payment in kind feature described subsequently. The resulting increase in the rate of return demanded by the market for trust preferred CDOs remains dramatically higher than the contractual interest rates. Virtually all structured asset-backed security ("ABS") fair values, including bank CDOs, deteriorated significantly during the recent financial crisis, generally reaching a low in mid-2009. Prices for some structured products 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 be characterized by considerable uncertainty surrounding collateral behavior, specifically including, but not limited to, prepayments; the future number, size and timing of bank failures; holding company bankruptcies; and allowed deferrals and subsequent resumption of payment or default due to nonpayment of contractual interest.
2) Structural features of the collateral make these CDO tranches difficult to model. The first feature unique to bank CDOs is the interest deferral feature previously noted. Throughout the financial crisis starting in 2008, certain banks within our CDO pools have exercised this prerogative. The extent to which these deferrals are likely to 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 a bank that first exercised this deferral option as early as the second quarter of 2008. At March 31, 2013, 83 banks underlying our CDO tranches had come current after a period of deferral, while 183 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 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. 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. Ratings on a number of CDO tranches vary significantly among rating agencies. The presence of a below-investment-grade rating by even a single rating agency will severely limit the pool of buyers, which causes greater

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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 nonspecialists in the product.

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

Effective December 31, 2012, we added a probability of default ("PD") overlay model for deferrals to the ratio-based PD model we have used for several years. While the historic ratio-based PD model had proven predictive of bank closures, we observed new emerging loss patterns from long-term deferrals in late 2012. Developments supported greater risk of bankruptcy, debt restructurings, or alternative actions that could cause loss in excess of ratio-based PDs for remaining deferrals. The PD overlay model for deferrals quantified these risks for the remaining deferrals.
Our ongoing review of these securities determined that OTTI should be recorded for the three months ended March 31, 2013.

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, 2013.
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, 2013.

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, 2013.
The following is a tabular rollforward of the total amount of credit-related OTTI:

(In thousands)	Three Months Ended March 31, 2013			Three Months Ended March 31, 2012		
	HTM	AFS	Total	HTM	AFS	Total
Balance of credit-related OTTI at beginning of period	$(13,549)	$(394,494)	$(408,043)	$(6,126)	$(314,860)	$(320,986)
Additions recognized in earnings during the period:						
Credit-related OTTI on securities not previously impaired	(403)	—	(403)	—	—	—
Additional credit-related OTTI on securities previously impaired	—	(9,714)	(9,714)	—	(10,209)	(10,209)
Subtotal of amounts recognized in earnings	(403)	(9,714)	(10,117)	—	(10,209)	(10,209)
	—	—	—	—	16,853	16,853

Reductions for securities sold or paid off during the period						
Balance of credit-related OTTI at end of period	$(13,952)	$(404,208)	$(418,160)	$(6,126)	$(308,216)	$(314,342)

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To determine the credit component of OTTI for all security types, we utilize projected cash flows as the best estimate of fair value. These cash flows are credit adjusted using, among other things, assumptions for default probability assigned to each portion of performing collateral. The credit-adjusted cash flows are discounted at a security specific coupon rate to identify any OTTI, and then at a market rate for valuation purposes.
For those securities with credit-related OTTI recognized in the statement of income, the amounts of pretax noncredit-related OTTI recognized in OCI were as follows:

(In thousands)	Three Months Ended March 31,	
	2013	2012
HTM	$16,114	$—
AFS	5,262	8,064
	$21,376	$8,064

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

	Three Months Ended			
	March 31, 2013		March 31, 2012	
(In thousands)	Gross gains	Gross losses	Gross gains	Gross losses
Investment securities:				
Held-to-maturity	$24	$403	$49	$—
Available-for-sale	3,276	9,715	6,459	15,997
Other noninterest-bearing investments:				
Nonmarketable equity securities	2,857	25	9,203	58
	6,157	10,143	15,711	16,055
Net gains (losses)		$(3,986)		$(344)
Statement of income information:				
Net impairment losses on investment securities		$(10,117)		$(10,209)
Equity securities gains, net		2,832		9,145
Fixed income securities gains, net		3,299		720
Net gains (losses)		$(3,986)		$(344)

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

During the three months ended March 31, nontaxable interest income on securities was $3.4 million in 2013 and $4.8 million in 2012.

Securities with a carrying value of $1.5 billion at March 31, 2013 and December 31, 2012 were pledged to secure public and trust deposits, advances, and for other purposes as required by law. Securities are also pledged as collateral for security repurchase agreements.

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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, 2013	December 31, 2012
Loans held for sale	$161,559	$251,651
Commercial:		
Commercial and industrial	$11,503,964	$11,256,945
Leasing	389,723	422,513
Owner occupied	7,501,094	7,589,082
Municipal	484,038	494,183
Total commercial	19,878,819	19,762,723
Commercial real estate:		
Construction and land development	2,039,449	1,939,413
Term	8,011,727	8,062,819
Total commercial real estate	10,051,176	10,002,232
Consumer:		
Home equity credit line	2,124,719	2,177,680
1-4 family residential	4,408,284	4,350,329
Construction and other consumer real estate	319,707	321,235
Bankcard and other revolving plans	293,608	306,428
Other	208,381	216,379
Total consumer	7,354,699	7,372,051
FDIC-supported loans	477,725	528,241
Total loans	$37,762,419	$37,665,247

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 $128.4 million at March 31, 2013 and $137.5 million at December 31, 2012.

Owner occupied and commercial real estate loans include unamortized premiums of approximately $56.1 million at March 31, 2013 and $59.3 million at December 31, 2012.

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

Loans with a carrying value of approximately $22.0 billion at March 31, 2013 and $21.1 billion at December 31, 2012 have been pledged at the Federal Reserve and various Federal Home Loan Banks as collateral for current and potential borrowings.

We sold loans totaling $448 million and $426 million for the three months ended March 31, 2013 and 2012, respectively, that were previously classified as loans held for sale. At the time of origination, we determine whether loans will be held for investment or held for sale. We may subsequently change our intent to hold loans for investment and reclassify them as held for sale. Loans classified as loans held for sale primarily consist of conforming residential mortgages. Amounts added to loans held for sale during these periods were $359 million and

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$408 million, respectively. Income from loans sold, excluding servicing, for these same periods was $8.5 million and $6.0 million.

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 provision 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 ("CRE") segments, we use a comprehensive loan grading system to assign PD and loss given default ("LGD") grades to each loan. The credit quality indicators discussed subsequently are based on this grading system. PD and LGD 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 these loan grade groupings 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 by segmenting our consumer loan portfolio into separate pools based on common risk characteristics and separately calculating historical delinquency and loss experience for each pool. These roll rates are then applied to current delinquency levels to estimate probable inherent losses. Roll rates incorporate housing market trends inasmuch as these trends manifest themselves in charge-offs and delinquencies. In addition, our qualitative and environmental factors discussed subsequently incorporate the most recent housing market trends.

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 historical loss experience, as described above, we review the quantitatively derived level of ALLL for each segment using qualitative criteria and use those criteria to determine our estimate within the range. We track various risk factors that influence our judgment regarding the level of the ALLL across the portfolio segments. The current status and historical changes in qualitative and environmental factors may not be reflected in our quantitative models. These factors primarily 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

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- National economic and business conditions
- Regional and local economic and business conditions
- Data availability and applicability

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 to another. We also consider the uncertainty inherent in the estimation process when evaluating the ALLL.

Reserve for Unfunded Lending Commitments

We also estimate a reserve for potential losses associated with off-balance sheet commitments, including 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:

	Three Months Ended March 31, 2013				
(In thousands)	Commercial	Commercial real estate	Consumer	FDIC-supported [1]	Total
Allowance for loan losses:					
Balance at beginning of period	$510,908	$276,976	$95,656	$12,547	$896,087
Additions:					
Provision for loan losses	(3,229)	(18,628)	(5,020)	(2,158)	(29,035)
Adjustment for FDIC-supported loans	—	—	—	(7,429)	(7,429)
Deductions:					
Gross loan and lease charge-offs	(18,100)	(7,224)	(9,937)	(206)	(35,467)
Recoveries	7,351	5,297	3,923	1,054	17,625
Net loan and lease charge-offs	(10,749)	(1,927)	(6,014)	848	(17,842)
Balance at end of period	$496,930	$256,421	$84,622	$3,808	$841,781
Reserve for unfunded lending commitments:					
Balance at beginning of period	$67,374	$37,852	$1,583	$—	$106,809
Provision credited to earnings	(1,742)	(4,612)	—	—	(6,354)
Balance at end of period	$65,632	$33,240	$1,583	$—	$100,455
Total allowance for credit losses at end of period:					
Allowance for loan losses	$496,930	$256,421	$84,622	$3,808	$841,781
Reserve for unfunded lending commitments	65,632	33,240	1,583	—	100,455
Total allowance for credit losses	$562,562	$289,661	$86,205	$3,808	$942,236

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(In thousands)	Three Months Ended March 31, 2012 Commercial	Commercial real estate	Consumer	FDIC-supported [1]	Total
Allowance for loan losses:					
Balance at beginning of period	$561,351	$343,747	$123,115	$23,472	$1,051,685
Additions:					
Provision for loan losses	9,811	5,215	(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	$547,341	$334,299	$109,101	$21,045	$1,011,786
Reserve for unfunded lending commitments:					
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
Total allowance for credit losses at end of period:					
Allowance for loan losses	$547,341	$334,299	$109,101	$21,045	$1,011,786
Reserve for unfunded lending commitments	72,002	25,799	917	—	98,718
Total allowance for credit losses	$619,343	$360,098	$110,018	$21,045	$1,110,504

[1] The Purchased Loans section following contains further discussion related to FDIC-supported loans.

During the three months ended March 31, 2013, we modified the reporting of certain ALLL balances in the previous schedules. This change in reporting resulted in the reclassification of approximately $83.2 million at December 31, 2012 and $85.6 million at March 31, 2012 of ALLL balances from the commercial to the commercial real estate loan segments. There was no change to the methodology or assumptions used to estimate the ALLL, nor was the change the result of any changes in credit quality.

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

(In thousands)	March 31, 2013 Commercial	Commercial real estate	Consumer	FDIC-supported	Total
Allowance for loan losses:					
Individually evaluated for impairment	$39,021	$20,738	$12,560	$—	$72,319
Collectively evaluated for impairment	457,909	235,683	72,062	247	765,901
Purchased loans with evidence of credit deterioration	—	—	—	3,561	3,561
Total	$496,930	$256,421	$84,622	$3,808	$841,781
Outstanding loan balances:					
Individually evaluated for impairment	$355,389	$406,662	$111,593	$1,389	$875,033

Collectively evaluated for impairment	19,523,430	9,644,514	7,243,106	48,613	36,459,663
Purchased loans with evidence of credit deterioration	—	—	—	427,723	427,723
Total	$19,878,819	$10,051,176	$7,354,699	$477,725	$37,762,419

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	December 31, 2012				
(In thousands)	Commercial	Commercial real estate	Consumer	FDIC-supported	Total
Allowance for loan losses:					
Individually evaluated for impairment	$30,587	$22,295	$13,758	$—	$66,640
Collectively evaluated for impairment	480,321	254,681	81,898	422	817,322
Purchased loans with evidence of credit deterioration	—	—	—	12,125	12,125
Total	$510,908	$276,976	$95,656	$12,547	$896,087
Outstanding loan balances:					
Individually evaluated for impairment	$353,380	$437,647	$112,320	$1,149	$904,496
Collectively evaluated for impairment	19,409,343	9,564,585	7,259,731	57,896	36,291,555
Purchased loans with evidence of credit deterioration	—	—	—	469,196	469,196
Total	$19,762,723	$10,002,232	$7,372,051	$528,241	$37,665,247

Nonaccrual and Past Due Loans

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

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

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

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Nonaccrual loans are summarized as follows:

(In thousands)	March 31, 2013	December 31, 2012
Loans held for sale	$—	$—
Commercial:		
Commercial and industrial	$99,137	$90,859
Leasing	971	838
Owner occupied	195,484	206,031
Municipal	9,185	9,234
Total commercial	304,777	306,962
Commercial real estate:		
Construction and land development	93,078	107,658
Term	102,071	124,615
Total commercial real estate	195,149	232,273
Consumer:		
Home equity credit line	12,416	14,247
1-4 family residential	70,519	70,180
Construction and other consumer real estate	4,335	4,560
Bankcard and other revolving plans	731	1,190
Other	1,294	1,398
Total consumer loans	89,295	91,575
FDIC-supported loans	4,927	17,343
Total	$594,148	$648,153

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

	March 31, 2013						
(In thousands)	Current	30-89 days past due	90+ days past due	Total past due	Total loans	Accruing loans 90+ days past due	Nonaccrual loans that are current[1]
Loans held for sale	$161,559	$—	$—	$—	$161,559	$—	$—
Commercial:							
Commercial and industrial	$11,384,560	$57,408	$61,996	$119,404	$11,503,964	$4,505	$33,626
Leasing	387,918	1,058	747	1,805	389,723	—	—
Owner occupied	7,361,392	70,199	69,503	139,702	7,501,094	1,635	102,498
Municipal	478,285	5,753	—	5,753	484,038	—	3,432
Total commercial	19,612,155	134,418	132,246	266,664	19,878,819	6,140	139,556
Commercial real estate:							
Construction and land development	1,985,096	18,809	35,544	54,353	2,039,449	1,390	55,983
Term	7,925,008	36,805	49,914	86,719	8,011,727	3,979	44,076
Total commercial real estate	9,910,104	55,614	85,458	141,072	10,051,176	5,369	100,059
Consumer:							

Home equity credit line	2,117,610	4,412	2,697	7,109	2,124,719	—	7,781
1-4 family residential	4,359,621	15,765	32,898	48,663	4,408,284	59	31,640
Construction and other consumer real estate	314,383	3,897	1,427	5,324	319,707	251	2,558
Bankcard and other revolving plans	289,108	3,546	954	4,500	293,608	876	568
Other	206,312	1,123	946	2,069	208,381	13	262
Total consumer loans	7,287,034	28,743	38,922	67,665	7,354,699	1,199	42,809
FDIC-supported loans	415,782	12,422	49,521	61,943	477,725	47,208	1,763
Total	$37,225,075	$231,197	$306,147	$537,344	$37,762,419	$59,916	$ 284,187

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(In thousands)	December 31, 2012 Current	30-89 days past due	90+ days past due	Total past due	Total loans	Accruing loans 90+ days past due	Nonaccrual loans that are current[1]
Loans held for sale	$251,651	$—	$—	$—	$251,651	$—	$—
Commercial:							
Commercial and industrial	$11,124,639	$73,555	$58,751	$132,306	$11,256,945	$4,013	$32,389
Leasing	421,590	115	808	923	422,513	—	—
Owner occupied	7,447,083	56,504	85,495	141,999	7,589,082	1,822	100,835
Municipal	494,183	—	—	—	494,183	—	9,234
Total commercial	19,487,495	130,174	145,054	275,228	19,762,723	5,835	142,458
Commercial real estate:							
Construction and land development	1,836,284	66,139	36,990	103,129	1,939,413	853	50,044
Term	7,984,819	24,730	53,270	78,000	8,062,819	107	54,546
Total commercial real estate	9,821,103	90,869	90,260	181,129	10,002,232	960	104,590
Consumer:							
Home equity credit line	2,169,722	4,036	3,922	7,958	2,177,680	—	8,846
1-4 family residential	4,282,611	24,060	43,658	67,718	4,350,329	1,423	21,945
Construction and other consumer real estate	314,931	4,344	1,960	6,304	321,235	395	2,500
Bankcard and other revolving plans	302,587	2,439	1,402	3,841	306,428	1,010	721
Other	213,930	1,411	1,038	2,449	216,379	107	275
Total consumer loans	7,283,781	36,290	51,980	88,270	7,372,051	2,935	34,287
FDIC-supported loans	454,333	12,407	61,501	73,908	528,241	52,033	7,393
Total	$37,046,712	$269,740	$348,795	$618,535	$37,665,247	$61,763	$288,728

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

Credit Quality Indicators

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

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

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

Special Mention: A Special Mention asset has potential weaknesses that may be temporary or, if left uncorrected, may result in a loss. While concerns exist, the bank is currently protected and loss is considered unlikely and not imminent.
Substandard: A Substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have well defined weaknesses and are characterized by the distinct possibility that the bank may sustain some loss if deficiencies are not corrected.
Doubtful: A Doubtful asset has all the weaknesses inherent in a Substandard asset with the added characteristics that the weaknesses make collection or liquidation in full highly questionable.

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We generally assign internal grades to commercial and CRE loans with commitments equal to or greater than $500,000 based on financial and statistical models, individual credit analysis, and loan officer judgment. For these larger loans, we assign multiple grades within the Pass classification or one of the following four grades: 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 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:

	March 31, 2013					
(In thousands)	Pass	Special Mention	Sub-standard	Doubtful	Total loans	Total allowance
Loans held for sale	$161,559	$—	$—	$—	$161,559	$—
Commercial:						
Commercial and industrial	$10,909,863	$247,113	$341,882	$5,106	$11,503,964	
Leasing	386,186	217	3,296	24	389,723	
Owner occupied	6,773,156	122,691	601,121	4,126	7,501,094	
Municipal	469,254	5,599	9,185	—	484,038	
Total commercial	18,538,459	375,620	955,484	9,256	19,878,819	$496,930
Commercial real estate:						
Construction and land development	1,827,136	44,126	165,359	2,828	2,039,449	
Term	7,361,632	214,651	431,978	3,466	8,011,727	
Total commercial real estate	9,188,768	258,777	597,337	6,294	10,051,176	256,421
Consumer:						
Home equity credit line	2,084,851	87	39,781	—	2,124,719	
1-4 family residential	4,294,854	4,896	108,092	442	4,408,284	
Construction and other consumer real estate	311,634	4	8,069	—	319,707	
Bankcard and other revolving plans	287,354	21	6,233	—	293,608	
Other	202,024	2,813	3,544	—	208,381	
Total consumer loans	7,180,717	7,821	165,719	442	7,354,699	84,622
FDIC-supported loans	305,528	22,917	149,280	—	477,725	3,808
Total	$35,213,472	$665,135	$1,867,820	$15,992	$37,762,419	$841,781

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(In thousands)	December 31, 2012 Pass	Special Mention	Sub-standard	Doubtful	Total loans	Total allowance
Loans held for sale	$251,651	$—	$—	$—	$251,651	$—
Commercial:						
Commercial and industrial	$10,717,594	$198,645	$336,230	$4,476	$11,256,945	
Leasing	419,482	226	2,805	—	422,513	
Owner occupied	6,833,923	138,539	612,011	4,609	7,589,082	
Municipal	453,193	31,756	9,234	—	494,183	
Total commercial	18,424,192	369,166	960,280	9,085	19,762,723	$510,908
Commercial real estate:						
Construction and land development	1,648,215	57,348	233,374	476	1,939,413	
Term	7,433,789	237,201	388,914	2,915	8,062,819	
Total commercial real estate	9,082,004	294,549	622,288	3,391	10,002,232	276,976
Consumer:						
Home equity credit line	2,138,693	85	38,897	5	2,177,680	
1-4 family residential	4,234,426	4,316	111,063	524	4,350,329	
Construction and other consumer real estate	313,499	218	7,518	—	321,235	
Bankcard and other revolving plans	298,665	23	7,740	—	306,428	
Other	209,293	3,211	3,875	—	216,379	
Total consumer loans	7,194,576	7,853	169,093	529	7,372,051	95,656
FDIC-supported loans	327,609	24,980	175,652	—	528,241	12,547
Total	$35,028,381	$696,548	$1,927,313	$13,005	$37,665,247	$896,087

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. For our non-PCI loans, 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. PCI loans in our FDIC-supported portfolio segment are included in impaired loans and are accounted for under separate accounting guidance. See subsequent discussion under Purchased Loans.

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. The amount of interest income recognized on a cash basis during the time the loans were

impaired within the three months ended March 31, 2013 and 2012 was $0.1 million and $0.3 million, respectively.

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, 2013 and 2012:

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(In thousands)	March 31, 2013				
	Unpaid principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance
Commercial:					
Commercial and industrial	$186,011	$24,465	$136,053	$160,518	$19,757
Owner occupied	186,710	56,916	113,468	170,384	18,086
Municipal	—	—	—	—	—
Total commercial	372,721	81,381	249,521	330,902	37,843
Commercial real estate:					
Construction and land development	164,039	81,087	56,115	137,202	4,012
Term	286,495	56,973	186,543	243,516	16,255
Total commercial real estate	450,534	138,060	242,658	380,718	20,267
Consumer:					
Home equity credit line	14,128	8,355	3,082	11,437	274
1-4 family residential	109,632	41,141	51,073	92,214	11,878
Construction and other consumer real estate	7,347	3,266	2,720	5,986	408
Bankcard and other revolving plans	—	—	—	—	—
Other	2,148	1,699	3	1,702	—
Total consumer loans	133,255	54,461	56,878	111,339	12,560
FDIC-supported loans	585,817	329,717	99,395	429,112	3,561
Total	$1,542,327	$603,619	$648,452	$1,252,071	$74,231

(In thousands)	December 31, 2012				
	Unpaid principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance
Commercial:					
Commercial and industrial	$176,521	$27,035	$119,780	$146,815	$12,198
Owner occupied	210,319	79,413	106,282	185,695	17,105
Total commercial	386,840	106,448	226,062	332,510	29,303
Commercial real estate:					
Construction and land development	182,385	67,241	85,855	153,096	5,178
Term	310,242	70,718	187,112	257,830	16,725
Total commercial real estate	492,627	137,959	272,967	410,926	21,903
Consumer:					
Home equity credit line	14,339	8,055	3,444	11,499	297
1-4 family residential	108,934	42,602	49,867	92,469	12,921
Construction and other consumer real estate	7,054	2,710	3,085	5,795	517
Bankcard and other revolving plans	287	—	287	287	1
Other	2,454	1,832	175	2,007	22
Total consumer loans	133,068	55,199	56,858	112,057	13,758
FDIC-supported loans	895,804	275,187	195,158	470,345	12,125

Total	$1,908,339	$574,793	$751,045	$1,325,838	$77,089

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(In thousands)	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial:				
Commercial and industrial	$177,745	$856	$178,428	$888
Owner occupied	182,825	806	204,469	600
Municipal	—	—	—	—
Total commercial	360,570	1,662	382,897	1,488
Commercial real estate:				
Construction and land development	147,225	664	257,194	1,562
Term	289,103	1,836	346,399	1,973
Total commercial real estate	436,328	2,500	603,593	3,535
Consumer:				
Home equity credit line	11,455	59	1,280	1
1-4 family residential	99,191	382	93,838	320
Construction and other consumer real estate	6,122	46	8,261	42
Bankcard and other revolving plans	—	—	—	—
Other	1,816	—	2,771	—
Total consumer loans	118,584	487	106,150	363
FDIC-supported loans	447,841	25,153 [1]	641,099	21,992 [1]
Total	$1,363,323	$29,802	$1,733,739	$27,378

[1] The balance of interest income recognized results primarily from accretion of interest income on impaired FDIC-supported loans.

Modified and Restructured Loans

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

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

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

remains classified as a nonaccrual loan. A TDR loan that specifies an interest rate that at the time of the restructuring is greater than or equal to the rate the bank is willing to accept for a new loan with

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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 schedules:

	March 31, 2013						
	Recorded investment resulting from the following modification types:						
(In thousands)	Interest rate below market	Maturity or term extension	Principal forgiveness	Payment deferral	Other[1]	Multiple modification types[2]	Total
Accruing							
Commercial:							
Commercial and industrial	$3,759	$10,216	$—	$8,130	$18,767	$43,572	$84,444
Owner occupied	22,299	5,309	1,005	3,001	9,956	14,998	56,568
Total commercial	26,058	15,525	1,005	11,131	28,723	58,570	141,012
Commercial real estate:							
Construction and land development	1,693	13,148	—	59	8,257	25,718	48,875
Term	30,504	9,982	8,498	4,925	29,248	83,555	166,712
Total commercial real estate	32,197	23,130	8,498	4,984	37,505	109,273	215,587
Consumer:							
Home equity credit line	743	—	6,029	—	108	193	7,073
1-4 family residential	3,042	1,314	6,362	332	4,050	33,852	48,952
Construction and other consumer real estate	142	1,181	—	—	419	1,812	3,554
Other	—	3	—	—	—	—	3
Total consumer loans	3,927	2,498	12,391	332	4,577	35,857	59,582
Total accruing	62,182	41,153	21,894	16,447	70,805	203,700	416,181
Nonaccruing							
Commercial:							
Commercial and industrial	170	8,988	—	228	3,927	16,015	29,328
Owner occupied	2,788	3,076	638	4,723	7,181	9,260	27,666
Total commercial	2,958	12,064	638	4,951	11,108	25,275	56,994
Commercial real estate:							
Construction and land development	13,627	1,228	—	—	1,546	59,544	75,945
Term	3,035	519	—	3,053	1,769	15,395	23,771
Total commercial real estate	16,662	1,747	—	3,053	3,315	74,939	99,716
Consumer:							
Home equity credit line	—	—	3,891	—	353	133	4,377
1-4 family residential	4,739	549	4,621	—	4,010	16,538	30,457
Construction and other consumer real estate	11	973	—	—	—	1,169	2,153
	—	278	—	—	—	—	278

Bankcard and other revolving plans							
Total consumer loans	4,750	1,800	8,512	—	4,363	17,840	37,265
Total nonaccruing	24,370	15,611	9,150	8,004	18,786	118,054	193,975
Total	$86,552	$56,764	$ 31,044	$24,451	$89,591	$ 321,754	$610,156

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(In thousands)	December 31, 2012 Recorded investment resulting from the following modification types:						
	Interest rate below market	Maturity or term extension	Principal forgiveness	Payment deferral	Other[1]	Multiple modification types[2]	Total
Accruing							
Commercial:							
Commercial and industrial	$5,388	$6,139	$—	$3,585	$17,647	$ 44,684	$77,443
Owner occupied	20,963	12,104	—	4,013	9,305	13,598	59,983
Total commercial	26,351	18,243	—	7,598	26,952	58,282	137,426
Commercial real estate:							
Construction and land development	1,718	9,868	2	59	8,432	30,248	50,327
Term	30,118	1,854	8,433	3,807	32,302	82,809	159,323
Total commercial real estate	31,836	11,722	8,435	3,866	40,734	113,057	209,650
Consumer:							
Home equity credit line	744	—	5,965	—	300	218	7,227
1-4 family residential	2,665	1,324	5,923	147	3,319	36,199	49,577
Construction and other consumer real estate	147	—	—	—	641	2,354	3,142
Other	—	3	—	—	1	—	4
Total consumer loans	3,556	1,327	11,888	147	4,261	38,771	59,950
Total accruing	61,743	31,292	20,323	11,611	71,947	210,110	407,026
Nonaccruing							
Commercial:							
Commercial and industrial	318	5,667	—	480	2,035	17,379	25,879
Owner occupied	3,822	4,816	654	4,701	7,643	7,803	29,439
Total commercial	4,140	10,483	654	5,181	9,678	25,182	55,318
Commercial real estate:							
Construction and land development	18,255	1,308	—	—	1,807	68,481	89,851
Term	3,042	536	—	2,645	9,389	17,718	33,330
Total commercial real estate	21,297	1,844	—	2,645	11,196	86,199	123,181
Consumer:							
Home equity credit line	—	—	4,008	—	131	143	4,282
1-4 family residential	4,697	5,637	4,048	—	1,693	14,240	30,315
Construction and other consumer real estate	7	1,671	—	—	—	243	1,921
Bankcard and other revolving plans	—	287	—	—	—	—	287
Other	—	—	—	172	—	—	172
Total consumer loans	4,704	7,595	8,056	172	1,824	14,626	36,977
Total nonaccruing	30,141	19,922	8,710	7,998	22,698	126,007	215,476
Total	$91,884	$51,214	$ 29,033	$19,609	$94,645	$ 336,117	$622,502

[1] 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.
[2] Includes TDRs that resulted from a combination of any of the previous modification types.

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Unused commitments to extend credit on TDRs amounted to approximately $8 million at March 31, 2013 and $13 million at December 31, 2012.

The total recorded investment of all TDRs in which interest rates were modified below market was $234.1 million at March 31, 2013 and $225.6 million at December 31, 2012. These loans are included in the previous table in the columns for interest rate below market and multiple modification types.

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

(In thousands)	Three Months Ended March 31,	
	2013	2012
Commercial:		
Commercial and industrial	$(181)	$(15)
Owner occupied	(1,060)	(377)
Total commercial	(1,241)	(392)
Commercial real estate:		
Construction and land development	(416)	(219)
Term	(2,659)	(1,546)
Total commercial real estate	(3,075)	(1,765)
Consumer:		
Home equity credit line	(39)	(15)
1-4 family residential	(3,860)	(3,849)
Construction and other consumer real estate	(109)	(108)
Total consumer loans	(4,008)	(3,972)
Total decrease to interest income	$(8,324) [1]	$(6,129) [1]

[1]Calculated based on the difference between the modified rate and the premodified rate applied to the recorded investment.

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

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

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	Three Months Ended March 31, 2013			Three Months Ended March 31, 2012		
(In thousands)	Accruing	Nonaccruing	Total	Accruing	Nonaccruing	Total
Commercial:						
Commercial and industrial	$—	$25	$25	$—	$249	$249
Owner occupied	—	135	135	—	1,314	1,314
Total commercial	—	160	160	—	1,563	1,563
Commercial real estate:						
Construction and land development	—	—	—	—	—	—
Term	—	1,071	1,071	—	1,555	1,555
Total commercial real estate	—	1,071	1,071	—	1,555	1,555
Consumer:						
Home equity credit line	—	85	85	—	—	—
1-4 family residential	—	—	—	—	526	526
Total consumer loans	—	85	85	—	526	526
Total	$—	$1,316	$1,316	$—	$3,644	$3,644

Note: Total loans modified as TDRs during the 12 months previous to March 31, 2013 and 2012 were $181.5 million and $276.2 million, respectively.

Concentrations of Credit Risk

We perform an ongoing analysis of our loan portfolio to evaluate whether there is any significant exposure to any concentrations of credit risk. These potential concentrations include, but are not limited to, individual borrowers, groups of borrowers, industries, geographies, collateral types, sponsors, etc. Such credit risks (whether on- or off-balance sheet) may occur when groups of borrowers or counterparties have similar economic characteristics and are similarly affected by changes in economic or other conditions. Credit risk also includes the loss that would be recognized subsequent to the reporting date if counterparties failed to perform as contracted. Our analysis as of March 31, 2013 concluded that no significant exposure exists from such credit risk concentrations. See Note 6 for a discussion of counterparty risk associated with the Company’s derivative transactions.

Purchased Loans

Background and Accounting

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

During 2009, 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. According to the agreements, the FDIC assumes 80% of credit losses up to a threshold specified for each acquisition and 95% above that threshold for a period of five years, or in 2014. The covered portfolio primarily consists of commercial loans. The agreements expire after ten years, or in 2019, for single family residential loans. 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. Upon acquisition, in accordance with applicable accounting guidance, the acquired loans were recorded at their fair value without a corresponding ALLL.

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Outstanding Balances and Accretable Yield

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

(In thousands)	March 31, 2013	December 31, 2012
Commercial	$214,799	$227,414
Commercial real estate	342,752	382,068
Consumer	38,464	41,398
Outstanding balance	$596,015	$650,880
Carrying amount	$429,203	$472,040
ALLL	3,513	12,077
Carrying amount, net	$425,690	$459,963

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

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 $0.5 million at March 31, 2013 and $12.2 million at December 31, 2012.

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

(In thousands)	Three Months Ended March 31, 2013	2012
Balance at beginning of period	$134,461	$184,679
Accretion	(25,266)	(21,533)
Reclassification from nonaccretable difference	14,872	13,869
Disposals and other	2,292	(3,011)
Balance at end of period	$126,359	$174,004

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

The primary drivers of reclassification to accretable yield from nonaccretable difference and increases in disposals and other resulted primarily from (1) changes in estimated cash flows, (2) unexpected payments on nonaccrual loans, and (3) recoveries on zero balance loans pools. See subsequent discussion under changes in cash flow estimates.

ALLL Determination

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

discussed subsequently. The ALLL for acquired loans 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, 2013 and 2012, we adjusted the ALLL for acquired loans by recording a provision for loan losses of $(9.6) million and $(0.4) million, respectively. The provision is net of the ALLL reversals discussed subsequently. As separately discussed and in accordance with the loss sharing agreements, portions of the increases to the provision are recoverable from the FDIC and comprise part of the FDIC IA. For the three months ended March 31, 2013 and 2012, these adjustments, before FDIC indemnification, resulted in net recoveries of $0.9 million, and net charge-offs of $1.1 million, respectively.

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

Changes in Cash Flow Estimates

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

For increases in carrying values that resulted from better-than-expected cash flows, we use such increases first to reverse any existing ALLL. During the three months ended March 31, total reversals to the ALLL were $9.7 million in 2013 and $2.7 million in 2012. When there is no current ALLL, we increase the amount of accretable yield on a prospective basis over the remaining life of the loan and recognize this increase in interest income. Any related decrease to the FDIC IA is recorded through a charge to other noninterest expense. Changes that increase cash flows have been due primarily to (1) the enhanced economic status of borrowers compared to original evaluations, (2) improvements in the Southern California market where the majority of these loans were originated, and (3) efforts by our credit officers and loan workout professionals to resolve problem loans.

For the three months ended March 31, the impact of increased cash flow estimates recognized in the statement of income for acquired loans with no ALLL was approximately $19.0 million in 2013 and $13.2 million in 2012 of additional interest income, and $20.3 million in 2013 and $10.0 million in 2012 of additional other noninterest expense due to the reduction of the FDIC IA.

FDIC Indemnification Asset

In October 2012, the FASB issued ASU 2012-06, Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution, a consensus of the FASB Emerging Issues Task Force. This new guidance under ASC 805, Business Combinations, provides that a change in measurement of the IA due to a change in expected cash flows would be accounted for on the same basis as the change in the indemnified loans. Any amortization period for the changes in value would be limited to the lesser of the term of the indemnification agreement or the remaining life of the indemnified loans. Our existing accounting was substantially similar to this new guidance, and our adoption effective January 1, 2013 did not have a significant impact on our financial position or results of operations.

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.

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Changes in the FDIC IA were as follows:

(In thousands)	Three Months Ended March 31,	
	2013	2012
Balance at beginning of period	$90,929	$136,427
Amounts filed with the FDIC and collected or in process [1]	7,671	(1,346)
Net change in asset balance due to reestimation of projected cash flows [2]	(27,500)	(11,185)
Balance at end of period	$71,100	$123,896

[1] The FDIC's reimbursement process requires that submitted expenses be paid, not just incurred, to qualify for reimbursement.

[2] Negative amounts result from the accretion of loan balances based on increases in cash flow estimates and on prepayments.

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

6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We record all derivatives on the balance sheet at fair value. Note 9 discusses the process to estimate fair value for derivatives. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives used to manage the exposure to credit risk, which can include total return swaps, are considered credit derivatives. When put in place after purchase of the assets 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, the effective portion of 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 to earnings, as discussed subsequently.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is 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

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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.

Our derivative contracts require us to pledge collateral for derivatives that are in a net liability position at a given balance sheet date. Certain of these derivative contracts contain credit-risk-related contingent features that include the requirement to maintain a minimum debt credit rating. We may be required to pledge additional collateral if a credit-risk-related feature were triggered, such as a downgrade of our credit rating. However, in past situations, not all counterparties have demanded that additional collateral be pledged when provided for under their contracts. At March 31, 2013, the fair value of our derivative liabilities was $79.7 million, for which we have pledged cash collateral of approximately $90.9 million in the normal course of business. If our credit rating were downgraded by one notch at March 31, 2013, the additional amount of collateral we could be required to pledge is $3 million.

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

Selected information with respect to notional amounts and recorded gross fair values at March 31, 2013 and December 31, 2012, and the related gain (loss) of derivative instruments for the three months ended March 31, 2013 and 2012 is summarized as follows:

	March 31, 2013			December 31, 2012		
		Fair value			Fair value	
(In thousands)	Notional amount	Other assets	Other liabilities	Notional amount	Other assets	Other liabilities
Derivatives designated as hedging instruments						
Asset derivatives						
Cash flow hedges:						
Interest rate swaps	$100,000	$322	$—	$150,000	$1,188	$—
Total derivatives designated as hedging instruments	100,000	322	—	150,000	1,188	—
Derivatives not designated as hedging instruments						
Interest rate swaps	80,446	848	852	98,524	1,043	1,047
Interest rate swaps for customers [2]	2,696,981	70,824	73,985	2,607,603	79,579	82,926
Total return swap	1,159,686	—	4,875	1,159,686	—	5,127
Total derivatives not designated as hedging instruments	3,937,113	71,672	79,712	3,865,813	80,622	89,100
Total derivatives	$4,037,113	$71,994	$79,712	$4,015,813	$81,810	$89,100

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	Three Months Ended March 31, 2013				Three Months Ended March 31, 2012			
	Amount of derivative gain (loss) recognized/reclassified							
(In thousands)	OCI	Reclassified from AOCI to interest income [3]	Noninterest income (expense)	Offset to interest expense	OCI	Reclassified from AOCI to interest income [3]	Noninterest income (expense)	Offset to interest expense
Derivatives designated as hedging instruments								
Asset derivatives								
Cash flow hedges [1]:								
Interest rate swaps	$(4)	$ 1,605	$—		$211	$ 5,294	$—	
	(4)	1,605	—		211	5,294	—	
Liability derivatives								
Fair value hedges:								
Terminated swaps on long-term debt				$766				750
Total derivatives designated as hedging instruments	(4)	1,605	—	766	211	5,294	—	750
Derivatives not designated as hedging instruments [2]								
Interest rate swaps			(67)				(132)	
Interest rate swaps for customers [2]			1,458				1,390	
Basis swaps			—				18	
Futures contracts			1				(24)	
Total return swap			(5,558)				(5,450)	
Total derivatives not designated as hedging instruments			(4,166)				(4,198)	
Total derivatives	$(4)	$ 1,605	$ (4,166)	$766	$211	$ 5,294	$ (4,198)	$750

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

[1] Amounts recognized in OCI and reclassified from accumulated OCI ("AOCI") represent the effective portion of the derivative gain (loss).

[2] Amounts include both the customer swaps and the offsetting derivative contracts.

[3] Amounts for the three months ended March 31, 2013 and 2012 of $1.6 million and $5.3 million, respectively, are the amounts of reclassification to earnings from AOCI presented in Note 7.

At March 31, the fair values of derivative assets and liabilities were reduced (increased) by net credit valuation adjustments of $3.0 million and $(0.1) million in 2013, and $3.5 million and $(0.1) million in 2012, respectively. These adjustments are required to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk.

We offer interest rate swaps to our customers to assist them in managing their exposure to fluctuating interest rates. Upon issuance, all of these customer swaps are immediately "hedged" by offsetting derivative contracts with major

dealers, 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.

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 corresponding 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, 2013, we estimate that an additional $1 million will be reclassified.

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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 $4.9 million at March 31, 2013 and $5.1 million at December 31, 2012.

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. We are able to cancel the transaction with not longer than 90 days' notice. Absent major changes in these projected cash flows, we expect the value of the TRS liability to continue to approximate its March 31, 2013 fair value. We expect to incur subsequent net quarterly costs of approximately $5.4 million under the TRS, including related interest rate swaps and scheduled payments of interest on the underlying CDOs, as long as the TRS remains in place for this CDO portfolio. Our estimated quarterly expense amount would be impacted by, among other things, changes in the composition of the CDO portfolio included in the transaction and changes over time in the forward London Interbank Offered Rate ("LIBOR") rate curve. The Company's costs are also subject to adjustment in the event of future changes in regulatory requirements applicable to DB if we do not then elect to terminate the transaction. Termination by the Company for such regulatory changes applicable to DB will result in no payment by the Company.

At March 31, 2013, 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.

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7. DEBT AND SHAREHOLDERS' EQUITY

Debt Issuance and Redemptions

During the three months ended March 31, 2013, we issued a long-term senior medium-term note of $19 million, which has an interest rate of 2.75% and matures May 2016. During this same period, we redeemed at maturity $5 million of short-term notes and $18 million of long-term notes.

Subordinated Debt Conversions

During the three months ended March 31, 2013, approximately $1 million of convertible subordinated debt was converted into depositary shares each representing a 1/40th interest in a share of the Company's preferred stock. These conversions added 991 shares of Series C to the Company's preferred stock.

For the three months ended March 31, 2013, in connection with these conversions, the $1.2 million added to preferred stock included the transfer from common stock of $0.2 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 $76.4 million at March 31, 2013. Accelerated discount amortization on the converted debt increased interest expense for the three months ended March 31, 2013 by $0.3 million. At March 31, 2013, the balance at par of the convertible subordinated debt was $456.8 million. The five largest investor holdings totaled approximately 40% of this amount. The remaining balance of the convertible debt discount was $137.5 million at March 31, 2013.

Preferred Stock Issuance

On February 7, 2013, we issued $171.8 million of Series G Fixed/Floating Rate Non-Cumulative Perpetual Preferred Stock. The issuance was in the form of depositary shares with each depositary share representing a 1/40th ownership interest in a share of the preferred stock. The shares are registered with the SEC and qualify as Tier 1 capital. Dividends are payable from the issuance date to March 14, 2023 at an annual rate of 6.30%. Beginning March 15, 2023 (date of earliest redemption), dividends will be payable at an annual floating rate equal to three-month LIBOR plus 4.24%. Net of commissions and fees, the proceeds added $168.8 million to shareholders' equity.

Accumulated Other Comprehensive Income

Effective January 1, 2013, we adopted ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This new guidance under ASU 220, Comprehensive Income, follows ASUs 2011-12 and 2011-05 and finalizes the reporting requirements for reclassifications out of AOCI. Companies must present reclassifications by component when reporting changes in AOCI. Items reclassified in their entirety out of AOCI to net income must have the effect of the reclassification disclosed according to the respective income statement line item. Items not reclassified in their entirety must be cross-referenced to other disclosures in the footnotes. The entire reclassification information must be disclosed in one place, either on the face of the financial statements by income statement line item, or in a footnote. We have elected to present the information in a footnote and include the comparable period for the previous year.

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Changes in AOCI by component are as follows:

(In thousands)	Net unrealized gains (losses) on investment securities	Net unrealized gains (losses) on derivative instruments	Pension and post-retirement	Total
Three Months Ended March 31, 2013				
Balance at December 31, 2012	$(397,616)	$1,794	$ (50,335)	$(446,157)
Other comprehensive income (loss) before reclassifications, net of tax	36,042	(2)	—	36,040
Amounts reclassified from AOCI, net of tax	4,171	(957)	—	3,214
Other comprehensive income (loss)	40,213	(959)	—	39,254
Balance at March 31, 2013	$(357,403)	$835	$ (50,335)	$(406,903)
Three Months Ended March 31, 2012				
Balance at December 31, 2011	$(546,763)	$9,404	$ (54,725)	$(592,084)
Other comprehensive income before reclassifications, net of tax	17,634	121	—	17,755
Amounts reclassified from AOCI, net of tax	5,963	(3,201)	—	2,762
Other comprehensive income (loss)	23,597	(3,080)	—	20,517
Balance at March 31, 2012	$(523,166)	$6,324	$ (54,725)	$(571,567)

(In thousands)	Amounts reclassified from AOCI [1] Three Months Ended March 31,		Statement of income (SI) Balance sheet (BS)	
Details about AOCI components	2013	2012		Affected line item
Net realized gains on investment securities	$3,299	$720	SI	Fixed income securities gains, net
Income tax expense	1,262	214		
	2,037	506		
Net unrealized losses on investment securities	(9,714)	(10,209)	SI	Net impairment losses on investment securities
Income tax benefit	(3,715)	(3,905)		
	(5,999)	(6,304)		
Accretion of securities with noncredit-related impairment losses not expected to be sold	(344)	(267)	BS	Investment securities, held-to-maturity
Deferred income taxes	135	102	BS	Other assets
	$(4,171)	$(5,963)		

Net unrealized gains on derivative instruments	$1,605	$5,294	SI	Interest and fees on loans
Income tax expense	648	2,093		
	$957	$3,201		

[1] Negative reclassification amounts indicate decreases to earnings in the statement of income and increases to balance sheet assets. The opposite applies to positive reclassification amounts.

Subsequent Events

On May 3, 2013, Zions Capital Trust B redeemed all of its 8.0% trust preferred securities, or 11.4 million shares, at 100% of their $25 per share liquidation amount for a total of $285 million.

On May 3, 2013, we issued $126.2 million of Series H Fixed-Rate Non-Cumulative Perpetual Preferred Stock. The issuance was in the form of depositary shares with each depositary share representing a 1/40th ownership interest in a share of the preferred stock. The shares are registered with the SEC and qualify as Tier 1 capital. Dividends are payable quarterly in arrears at an annual rate of 5.75% on the 15th day of March, June, September, and December, commencing June 15, 2013. The shares may be redeemed in whole, but not in part, beginning June 15, 2019. Net of commissions and fees, the proceeds added approximately $123.1 million to shareholders’ equity.

8. INCOME TAXES

The income tax expense rate for the three months ended March 31, 2013 was lower than the tax rate for the same period in 2012 primarily because of a decrease in the nondeductible amount of a portion of the accelerated discount amortization from the conversion of subordinated debt to preferred stock.

The balance of net deferred tax assets was approximately $381 million at March 31, 2013 and $406 million at December 31, 2012. 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, 2013.

9. FAIR VALUE

Fair Value Measurement

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

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

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

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

We use fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure for accounting. This is done primarily for AFS and trading investment securities; private equity investments under the equity method of accounting; 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 fair value accounting or when adjusting carrying values of certain assets or liabilities, including recognition of impairment on assets. This is done primarily for HTM securities; loans held for sale; impaired loans; other real estate owned (“OREO”); private equity investments carried at cost; goodwill; core deposit and other intangibles; other long-lived assets; and for disclosures of certain financial instruments.

Level 3 Valuation Policies and Procedures

Our valuation policies and procedures for Level 3 securities are under the direction of the Securities Valuation and Securitization Oversight Committee (“SOC”) comprised of senior and executive members of management in our

investment, financial and accounting operations. The SOC is chaired by our chief financial officer and reports to the Audit Committee of the Board of Directors. The major function of the SOC is to develop, review, and approve for

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use on a quarterly basis the key model inputs, critical valuation assumptions, and proposed discount rates utilized for the valuation of Level 3 securities. The sources of fair value changes are presented to the SOC and attribution analyses are completed when significant changes occur between quarters. SOC procedures require that back testing of certain significant assumptions be provided quarterly. Observers from Risk Management, Internal Audit and other areas attend SOC meetings.

The Model Control Committee ("MCC") is responsible for model validation and related policies. The MCC is separate from the SOC and is part of the Corporate Risk Management department. MCC members are drawn from quantitative experts throughout the Company. The MCC conducts model validations, including the trust preferred CDO internal model discussed subsequently, and sets policies and procedures for revalidation timing.

Utilization of Third Party Service Providers

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

For AFS Level 2 securities, we use a third party pricing service to provide pricing, if available, for securities in the following reporting categories: U.S. Treasury, agencies and corporations (except Federal Agricultural Mortgage Corporation ("FAMC") securities); municipal securities; trust preferred – banks and insurance; and other (including ABS CDOs). At March 31, 2013, 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 $1.7 billion of the $1.8 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: municipal securities, trust preferred – banks and insurance, trust preferred – real estate investment trusts, auction rate, and other (including ABS CDOs). At March 31, 2013, 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 $79 million of the $1.1 billion total of AFS Level 3 securities. In addition, the fair values for approximately $978 million at March 31, 2013 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, 2013, the Level 2 securities consisted of approximately $111 million of FAMC securities, $54 million of municipal securities, and $7 million of mutual funds and stock, and the Level 3 securities consisted of $3 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, SOC procedures call for quarterly comparisons of relevant data assumptions used in the models of the other third party service providers. We evaluate these assumptions for reasonableness and compare them with those used in our internal models. 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.

We also compare the model results and valuations with our information about market trends and trading data. This includes information regarding trading prices, implied discounts, outlier information, valuation assumptions, etc.

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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. The largest portion of Level 3 AFS securities include certain CDOs backed by trust preferred securities issued by banks and insurance companies and, to a lesser extent, by REITs.

U.S. Treasury, Agencies and Corporations
Valuation inputs under Level 2 utilized by the third party service provider are discussed previously.

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

Trust Preferred Collateralized Debt Obligations
Substantially all of the CDO portfolio is fair valued using an income-based cash flow modeling approach incorporating several methodologies that primarily include internal and third party models.
Trust preferred CDO internal model: A licensed third party cash flow model, which requires the Company to input its own key valuation 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 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 the higher of the PD from the third party proprietary reduced form model and the ratio-based approach. For performing collateral, we use a floor PD of 30 basis points (“bps”) for year one for collateral where the higher of the one-year PDs from our ratio based approach and those from the third party proprietary reduced form model would be lower. The short-term 30 bps PD is similar to the PD we would apply if we had direct lending exposures to CDO pool collateral. We use a floor PD of 48 bps each year from years two to five smoothing the step-up to reach a 65 bps minimum PD for year six. We utilize a minimum PD for years six to maturity of 65 bps for bank collateral.

For deferring collateral, effective December 31, 2012 we added to our ratio-based approach a PD overlay model for deferrals. The deferral PD overlay model sorts all deferrals observed within our CDO pools into four “buckets” based on four factors indicative of bank holding company strength at the start of their deferral period. We then assume that the historical failure rate we have observed within our CDO pool for collateral in each bucket will be the future default rate of current deferrals in each bucket. Where the overlay PD of a deferral is higher than the PD identified by our

traditional ratio-based PD model, we use the higher overlay PD.

The resulting five-year PDs at March 31, 2013, after adding the PD overlay model, ranged from 100% for the "worst" deferring banks to 12% for the "best" deferring banks. The weighted average assumed loss rate on deferring collateral was 54%. 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 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® system (Trade Reporting and Compliance Engine®), 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, 2013, 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 + 28.4% 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 + 5.7% for the highest quality/most over-collateralized tranches. These discount rates are applied to already credit-adjusted cash flows for each tranche. CDO tranches with greater uncertainty in their cash flows are discounted at rates higher than those market participants would use for tranches with more stable expected cash flows (e.g., as a result of more subordination and/or better credit quality in the underlying collateral). The high end of the discount rate spectrum was applied to tranches in which minor changes in default assumption timing produced substantial deterioration in tranche cash flows. These discount rates are applied to credit-adjusted cash flows, which constitute each tranche's expected cash flows; discount rates are not applied to a hypothetical contractual cash flow.

At March 31, 2013, the discount rates utilized for fair value purposes for tranches that include bank collateral were:

1)LIBOR + 5.7% to 7.5% and averaged LIBOR + 5.9% for first priority original AAA-rated bonds;

2)LIBOR + 5.6% to 6.9% and averaged LIBOR + 5.9% for lower priority original AAA-rated bonds;

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3)LIBOR + 6.0% to 19.2% and averaged LIBOR + 10.3% for original A-rated bonds; and
4)LIBOR + 11.1% to 28.3% and averaged LIBOR + 19.6% 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 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 5% for the original AAA-rated CDO tranches, 9% for the original A-rated CDO tranches, and 17% 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.
REIT and ABS CDOs – third party models: Certain of these CDOs are fair valued by third party services using their proprietary models. See the previous discussion that describes the procedures we employ to evaluate the fair values from third party services for AFS Level 3 securities. Also see the subsequent discussion regarding key model inputs and assumptions.

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
Management who are familiar with our private equity investments, including investment officers, controllers, etc., review quarterly the financial statements and other information for each investment. The Other Equity Investments Committee, consisting of the chief executive officer, the chief financial officer, and the chief investment officer, review periodically for reasonableness the financial information for these investments. This includes oversight of the review of audited financial statements that are available for nearly all of the underlying investments. The amount of unfunded commitments to these partnerships is disclosed in Note 10. Generally, redemption is available annually.

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.

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

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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. The estimation of fair value of the TRS is discussed in Note 6.

Securities Sold, Not Yet Purchased
Securities sold, not yet purchased are fair valued under Level 1 when quoted prices are available for the securities involved. Any of these securities 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, 2013			
	Level 1	Level 2	Level 3	Total
ASSETS				
Investment securities:				
Available-for-sale:				
U.S. Treasury, agencies and corporations	$52,989	$1,783,663		$1,836,652
Municipal securities		53,865	$17,043	70,908
Asset-backed securities:				
Trust preferred – banks and insurance		122	1,003,102	1,003,224
Trust preferred – real estate investment trusts			17,306	17,306
Auction rate			6,524	6,524
Other (including ABS CDOs)		3,850	15,393	19,243
Mutual funds and stock	327,008	6,979		333,987
	379,997	1,848,479	1,059,368	3,287,844
Trading account		28,301		28,301
Other noninterest-bearing investments:				
Private equity		5,143	69,706	74,849
Other assets:				
Derivatives:				
Interest rate related and other		1,613		1,613
Interest rate swaps for customers		70,824		70,824
Foreign currency exchange contracts	8,929			8,929
	8,929	72,437		81,366
	$388,926	$1,954,360	$1,129,074	$3,472,360
LIABILITIES				
Securities sold, not yet purchased	$1,662			$1,662
Other liabilities:				
Derivatives:				
Interest rate related and other		$888		888
Interest rate swaps for customers		73,985		73,985
Foreign currency exchange contracts	7,645			7,645
Total return swap			$4,875	4,875
	7,645	74,873	4,875	87,393
Other			195	195
	$9,307	$74,873	$5,070	$89,250

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(In thousands)	December 31, 2012			
	Level 1	Level 2	Level 3	Total
ASSETS				
Investment securities:				
Available-for-sale:				
U.S. Treasury, agencies and corporations	$102,982	$1,692,637		$1,795,619
Municipal securities		59,445	$16,551	75,996
Asset-backed securities:				
Trust preferred – banks and insurance		121	949,271	949,392
Trust preferred – real estate investment trusts			16,403	16,403
Auction rate			6,515	6,515
Other (including ABS CDOs)		4,214	15,160	19,374
Mutual funds and stock	219,214	8,797		228,011
	322,196	1,765,214	1,003,900	3,091,310
Trading account		28,290		28,290
Other noninterest-bearing investments:				
Private equity		5,132	64,223	69,355
Other assets:				
Derivatives:				
Interest rate related and other		2,850		2,850
Interest rate swaps for customers		79,579		79,579
Foreign currency exchange contracts	4,404			4,404
	4,404	82,429		86,833
	$326,600	$1,881,065	$1,068,123	$3,275,788
LIABILITIES				
Securities sold, not yet purchased	$26,735			$26,735
Other liabilities:				
Derivatives:				
Interest rate related and other		$1,142		1,142
Interest rate swaps for customers		82,926		82,926
Foreign currency exchange contracts	3,159			3,159
Total return swap			$5,127	5,127
	3,159	84,068	5,127	92,354
Other			124	124
	$29,894	$84,068	$5,251	$119,213

No transfers of assets and liabilities occurred among Levels 1, 2 or 3 for the three months ended March 31, 2013 and 2012.

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, 2013:

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(Dollars in thousands)	Fair value at March 31, 2013	Valuation approach	Constant default rate ("CDR")	Loss severity	Prepayment rate
Asset-backed securities:					
Trust preferred – predominantly banks	$851,431	Income	Pool specific [3]	100%	Pool specific [7]
Trust preferred – predominantly insurance	273,924	Income	Pool specific [4]	100%	5% per year
Trust preferred – individual banks	21,167	Market			
	1,146,522 [1]				
Trust preferred – real estate investment trusts	17,306	Income	Pool specific [5]	60-100%	0% per year
Other (including ABS CDOs)	27,120 [2]	Income	Collateral specific [6]	70-100%	Collateral weighted average life

[1] Includes $1,003.1 million of AFS securities and $143.4 million of HTM securities.
[2] Includes $15.4 million of AFS securities and $11.7 million of HTM securities.
[3] CDR ranges: yr 1 – 0.32% to 3.14%; yrs 2-5 – 0.50% to 1.14%; yrs 6 to maturity – 0.58% to 0.72%.
[4] CDR ranges: yr 1 – 0.30% to 0.31%; yrs 2-5 – 0.47% to 0.48%; yrs 6 to maturity – 0.50% to 0.54%.
[5] CDR ranges: yr 1 – 3.4% to 7.7%; yrs 2-3 – 4.5% to 5.7%; yrs 4-6 – 1.0%; yrs 6 to maturity – 0.50%.
[6] 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.
[7] Constant Prepayment Rate ("CPR") ranges: 10.0% to 21.84% 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 CDR for performing collateral, the loss percentage expected from deferring collateral, and the discount rate used. The fair value of the portfolio would generally be positively affected by increases in interest rates and prepayment rates. For a specific tranche within a CDO, the directionality of the fair value change for a given assumption change may differ depending on the seniority level of the tranche. For example, faster prepayment may increase the fair value of a senior most tranche of a CDO while decreasing the fair value of a more junior tranche.

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

(Dollars in thousands)

Vintage year	Fair value at March 31, 2013	Percentage of total fair value according to original rating			Percentage of total fair value by vintage
		AAA	A	BBB	
2001	$44,798	4.1 %	1.1 %		