

ZIONS BANCORPORATION /UT/  
 Form 10-Q  
 August 07, 2014

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

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

For the quarterly period ended June 30, 2014

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
 COMMISSION FILE NUMBER 001-12307

ZIONS BANCORPORATION

(Exact name of registrant as specified in its charter)

UTAH

(State or other jurisdiction of  
 incorporation or organization)

87-0227400

(I.R.S. Employer  
 Identification No.)

One South Main, 15<sup>th</sup> Floor  
 Salt Lake City, Utah

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  No

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

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

Common Stock, without par value, outstanding at July 31, 2014

202,782,493 shares

ZIONS BANCORPORATION AND SUBSIDIARIES  
INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1.	<u>Financial Statements (Unaudited)</u>
	<u>Consolidated Balance Sheets</u> 3
	<u>Consolidated Statements of Income</u> 4
	<u>Consolidated Statements of Comprehensive Income</u> 5
	<u>Consolidated Statements of Changes in Shareholders' Equity</u> 6
	<u>Consolidated Statements of Cash Flows</u> 7
	<u>Notes to Consolidated Financial Statements</u> 8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 58
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 99
Item 4.	<u>Controls and Procedures</u> 99
<u>PART II. OTHER INFORMATION</u>	
Item 1.	<u>Legal Proceedings</u> 100
Item 1A.	<u>Risk Factors</u> 100
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 100
Item 6.	<u>Exhibits</u> 101
	<u>Signatures</u> 101

Table of Contents

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

(In thousands, except shares)	June 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
Cash and due from banks	\$1,384,131	\$1,175,083
Money market investments:		
Interest-bearing deposits	6,386,353	8,175,048
Federal funds sold and security resell agreements	478,535	282,248
Investment securities:		
Held-to-maturity, at adjusted cost (approximate fair value \$643,926 and \$609,547)	615,104	588,981
Available-for-sale, at fair value	3,462,809	3,701,886
Trading account, at fair value	56,572	34,559
	4,134,485	4,325,426
Loans held for sale	164,374	171,328
Loans and leases, net of unearned income and fees	39,630,363	39,043,365
Less allowance for loan losses	675,907	746,291
Loans, net of allowance	38,954,456	38,297,074
Other noninterest-bearing investments	854,978	855,642
Premises and equipment, net	803,214	726,372
Goodwill	1,014,129	1,014,129
Core deposit and other intangibles	30,826	36,444
Other real estate owned	27,725	46,105
Other assets	878,069	926,228
	\$55,111,275	\$56,031,127
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Noninterest-bearing demand	\$19,609,990	\$18,758,753
Interest-bearing:		
Savings and money market	23,308,114	23,029,928
Time	2,500,303	2,593,038
Foreign	252,207	1,980,161
	45,670,614	46,361,880
Federal funds and other short-term borrowings	258,401	340,348
Long-term debt	1,933,136	2,273,575
Reserve for unfunded lending commitments	95,472	89,705
Other liabilities	453,562	501,056
Total liabilities	48,411,185	49,566,564
Shareholders' equity:		

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

Preferred stock, without par value, authorized 4,400,000 shares	1,004,006	1,003,970
Common stock, without par value; authorized 350,000,000 shares; issued and outstanding 185,112,965 and 184,677,696 shares	4,192,136	4,179,024
Retained earnings	1,640,785	1,473,670
Accumulated other comprehensive income (loss)	(136,837	) (192,101
Total shareholders' equity	6,700,090	6,464,563
	\$55,111,275	\$56,031,127

See accompanying notes to consolidated financial statements.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Interest income:				
Interest and fees on loans	\$433,801	\$460,308	\$868,145	\$913,741
Interest on money market investments	4,888	5,764	10,018	11,203
Interest on securities	24,502	27,161	52,596	53,037
Total interest income	463,191	493,233	930,759	977,981
Interest expense:				
Interest on deposits	12,096	15,143	24,875	30,785
Interest on short- and long-term borrowings	34,812	47,433	73,136	98,424
Total interest expense	46,908	62,576	98,011	129,209
Net interest income	416,283	430,657	832,748	848,772
Provision for loan losses	(54,416 )	(21,990 )	(55,026 )	(51,025 )
Net interest income after provision for loan losses	470,699	452,647	887,774	899,797
Noninterest income:				
Service charges and fees on deposit accounts	42,873	44,329	85,467	87,909
Other service charges, commissions and fees	47,513	45,888	91,032	88,619
Wealth management income	7,980	7,732	15,057	14,726
Capital markets and foreign exchange	5,842	6,740	10,842	14,226
Dividends and other investment income	7,995	11,339	15,859	24,063
Loan sales and servicing income	6,335	10,723	12,809	21,674
Fair value and nonhedge derivative loss	(1,934 )	(2,957 )	(10,473 )	(8,402 )
Equity securities gains, net	2,513	2,209	3,425	5,041
Fixed income securities gains (losses), net	5,026	(1,153 )	35,940	2,146
Impairment losses on investment securities:				
Impairment losses on investment securities	—	(4,910 )	(27 )	(36,403 )
Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income)	—	693	—	22,069
Net impairment losses on investment securities	—	(4,217 )	(27 )	(14,334 )
Other	707	4,515	3,238	10,699
Total noninterest income	124,850	125,148	263,169	246,367
Noninterest expense:				
Salaries and employee benefits	238,764	227,328	472,170	457,117
Occupancy, net	28,939	27,951	57,244	55,340
Furniture, equipment and software	27,986	26,545	55,930	52,619
Other real estate expense	(266 )	1,590	1,341	3,567
Credit-related expense	7,139	9,397	14,045	19,879
Provision for unfunded lending commitments	6,779	3,627	5,767	(2,727 )
Professional and legal services	12,171	17,149	23,166	27,620
Advertising	6,803	5,807	13,201	11,700
FDIC premiums	8,017	10,124	15,939	19,835
Amortization of core deposit and other intangibles	2,736	3,762	5,618	7,581

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

Debt extinguishment cost	—	40,282	—	40,282
Other	66,959	78,116	139,669	156,213
Total noninterest expense	406,027	451,678	804,090	849,026
Income before income taxes	189,522	126,117	346,853	297,138
Income taxes	69,972	43,091	126,093	103,725
Net income	119,550	83,026	220,760	193,413
Net loss applicable to noncontrolling interests	—	—	—	(336 )
Net income applicable to controlling interest	119,550	83,026	220,760	193,749
Preferred stock dividends	(15,060 )	(27,641 )	(40,080 )	(50,040 )
Net earnings applicable to common shareholders	\$ 104,490	\$ 55,385	\$ 180,680	\$ 143,709
Weighted average common shares outstanding during the period:				
Basic shares	184,668	183,647	184,555	183,522
Diluted shares	185,286	184,062	185,202	183,863
Net earnings per common share:				
Basic	\$0.56	\$0.30	\$0.97	\$0.78
Diluted	0.56	0.30	0.97	0.77
See accompanying notes to consolidated financial statements.				

Table of Contents

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

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Net income	\$ 119,550	\$ 83,026	\$ 220,760	\$ 193,413
Other comprehensive income (loss), net of tax:				
Net unrealized holding gains on investment securities	10,605	29,300	81,671	78,096
Noncredit-related impairment losses on securities not expected to be sold	—	(130 )	—	(12,884 )
Reclassification to earnings for realized net fixed income securities gains	(3,104 )	712	(27,944 )	(1,325 )
Reclassification to earnings for net credit-related impairment losses on investment securities	—	2,549	17	8,548
Accretion of securities with noncredit-related impairment losses not expected to be sold	273	386	559	595
Net unrealized holding gains (losses) on derivative instruments	1,199	(1 )	1,519	(3 )
Reclassification adjustment for increase in interest income recognized in earnings on derivative instruments	(348 )	(469 )	(558 )	(1,426 )
Other comprehensive income	8,625	32,347	55,264	71,601
Comprehensive income	128,175	115,373	276,024	265,014
Comprehensive loss applicable to noncontrolling interests	—	—	—	(336 )
Comprehensive income applicable to controlling interest	\$ 128,175	\$ 115,373	\$ 276,024	\$ 265,350
See accompanying notes to consolidated financial statements.				

Table of ContentsZIONS BANCORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(In thousands, except shares and per share amounts)	Preferred stock	Common stock Shares	Amount	Retained earnings	Accumulated other comprehensive income (loss)	Noncontrolling interests	Total Shareholders' equity
Balance at December 31, 2013	\$1,003,970	184,677,696	\$4,179,024	\$1,473,670	\$(192,101)	\$—	\$6,464,563
Net income for the period				220,760		—	220,760
Other comprehensive income, net of tax					55,264		55,264
Subordinated debt converted to preferred stock	36		(5)				31
Net activity under employee plans and related tax benefits		435,269	13,117				13,117
Dividends on preferred stock				(40,080)			(40,080)
Dividends on common stock, \$0.08 per share				(14,873)			(14,873)
Change in deferred compensation				1,308			1,308
Balance at June 30, 2014	\$1,004,006	185,112,965	\$4,192,136	\$1,640,785	\$(136,837)	\$—	\$6,700,090
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				193,749		(336)	193,413
Other comprehensive income, net of tax					71,601		71,601
Issuance of preferred stock	598,941		(11,016)				587,925
Subordinated debt converted to preferred stock	1,416		(206)				1,210
Net activity under employee plans and related tax benefits		237,458	17,107				17,107
Dividends on preferred stock				(50,040)			(50,040)



Dividends on common stock, \$0.05 per share				(9,239 )				(9,239 )
Change in deferred compensation				116				116
Other changes in noncontrolling interests				(4,166 )		3,764		(402 )
Balance at June 30, 2013	\$1,728,659	184,436,656	\$4,167,828	\$1,338,401	\$(374,556)	\$—		\$6,860,332

See accompanying notes to consolidated financial statements.

Table of Contents

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

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income for the period	\$ 119,550	\$ 83,026	\$ 220,760	\$ 193,413
Adjustments to reconcile net income to net cash provided by operating activities:				
Debt extinguishment cost	—	40,282	—	40,282
Net impairment losses on investment securities	—	4,217	27	14,334
Provision for credit losses	(47,637 )	(18,363 )	(49,259 )	(53,752 )
Depreciation and amortization	31,150	21,935	63,554	60,193
Fixed income securities losses (gains), net	(5,026 )	1,153	(35,940 )	(2,146 )
Deferred income tax expense (benefit)	(58,870 )	(7,726 )	19,408	(6,444 )
Net decrease (increase) in trading securities	(247 )	1,882	(22,109 )	1,871
Net decrease (increase) in loans held for sale	(39,322 )	33,450	1,873	123,446
Change in other liabilities	19,586	2,967	(57,994 )	(45,510 )
Change in other assets	(16,668 )	121,095	(13,582 )	172,675
Other, net	9,910	3,585	12,246	(8,568 )
Net cash provided by operating activities	12,426	287,503	138,984	489,794
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net decrease (increase) in money market investments	1,672,896	(276,364 )	1,592,408	352,523
Proceeds from maturities and paydowns of investment securities held-to-maturity	19,190	27,825	38,125	81,437
Purchases of investment securities held-to-maturity	(27,514 )	(74,168 )	(63,264 )	(119,968 )
Proceeds from sales, maturities, and paydowns of investment securities available-for-sale	194,973	259,273	1,042,261	618,496
Purchases of investment securities available-for-sale	(221,701 )	(124,146 )	(673,824 )	(611,121 )
Net loan and lease originations	(444,844 )	(468,473 )	(607,330 )	(589,324 )
Net purchases of premises and equipment	(35,815 )	(26,733 )	(112,731 )	(42,533 )
Proceeds from sales of other real estate owned	17,087	24,685	28,912	52,659
Other, net	1,380	12,646	6,997	20,034
Net cash provided by (used in) investing activities	1,175,652	(645,455 )	1,251,554	(237,797 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Net increase (decrease) in deposits	(861,472 )	525,860	(691,266 )	(1,117,018 )
Net change in short-term funds borrowed	(21,436 )	(70,154 )	(81,947 )	(96,007 )
Proceeds from issuance of long-term debt	—	348,585	—	367,947
Repayments of long-term debt	(236,404 )	(551,616 )	(361,159 )	(570,014 )
Debt extinguishment cost paid	—	(23,305 )	—	(23,305 )
Proceeds from issuances of common and preferred stock	1,641	423,118	4,521	592,517
Dividends paid on common and preferred stock	(24,207 )	(35,047 )	(47,948 )	(59,279 )
Other, net	(3,388 )	(5,209 )	(3,691 )	(5,648 )
Net cash provided by (used in) financing activities	(1,145,266 )	612,232	(1,181,490 )	(910,807 )

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

Net increase (decrease) in cash and due from banks	42,812	254,280	209,048	(658,810 )
Cash and due from banks at beginning of period	1,341,319	928,817	1,175,083	1,841,907
Cash and due from banks at end of period	\$1,384,131	\$1,183,097	\$1,384,131	\$1,183,097
Cash paid for interest	\$40,820	\$41,782	\$81,669	\$103,913
Net cash paid for income taxes	122,737	120,438	122,656	124,003
See accompanying notes to consolidated financial statements.				

7

---

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)  
June 30, 2014

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”), which include consensus issues of the Emerging Issues Task Force (“EITF”). In certain cases, ASUs are issued jointly with International Financial Reporting Standards (“IFRS”). Certain prior period amounts have been reclassified to conform with the current period presentation.

Operating results for the three and six months ended June 30, 2014 and 2013 are not necessarily indicative of the results that may be expected in future periods. The consolidated balance sheet at December 31, 2013 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 2013 Annual Report on Form 10-K.

The Company provides a full range of banking and related services through subsidiary banks in 11 Western and Southwestern states as follows: Zions First National Bank (“Zions Bank”), in Utah, Idaho and Wyoming; 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. CERTAIN RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The new standard was issued jointly with IFRS and creates a single source of revenue recognition guidance across all companies in all industries. The core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The banking industry does not expect significant changes because major sources of revenue are from financial instruments that have been excluded from the scope of the new guidance, (including loans, derivatives, debt and equity securities, etc.). However, the new guidance may affect other fees charged by banks, such as asset management fees, credit card interchange fees, deposit account fees, etc., although the materiality of the impact on the Company is still being evaluated. For public companies, adoption is required for interim or annual periods beginning after December 15, 2016, with no early adoption permitted. Management is currently evaluating the impact this new guidance may have on its financial statements.

In January 2014, the FASB issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. This new guidance under ASC 310-40, Receivables – Troubled Debt Restructurings by Creditors, clarifies that a creditor should be considered to have physical possession of a residential real estate property collateralizing a residential mortgage loan and thus would reclassify the loan to other real estate owned when certain conditions are satisfied. The new amendments will require additional financial statement disclosures and may

be applied on either a prospective or a modified retrospective basis, with early

8

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

adoption permitted. For public companies, adoption is required for interim or annual periods beginning after December 15, 2014. Management does not currently believe this new guidance will have a significant effect on the Company's financial statement disclosures.

In January 2014, the FASB issued ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. This new accounting guidance under ASC 323, Investments – Equity Method and Joint Ventures, revised the conditions that an entity must meet to elect to use the effective yield method when accounting for qualified affordable housing project investments. The final consensus of the EITF changed the method of amortizing a Low-Income Housing Tax Credit (“LIHTC”) investment from the effective yield method to a proportional amortization method. The amortization would be proportional to the tax credits and tax benefits received but, under a practical expedient that would be available in certain circumstances, amortization could be proportional to only the tax credits. Reporting entities that invest in LIHTC investments through a limited liability entity could elect the proportional amortization method if certain conditions are met. The guidance would not extend to other types of tax credit investments. The final consensus would be applied retrospectively with early adoption and other adjustments permitted. For public companies, adoption is required for interim or annual periods beginning after December 15, 2014. Management does not currently believe this new guidance will have a significant effect on the Company's financial statements.

## 3. SUPPLEMENTAL CASH FLOW INFORMATION

Noncash activities are summarized as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Loans and leases transferred to other real estate owned	\$4,905	\$17,376	\$11,243	\$40,818
Loans and leases transferred to (from) loans held for sale	(1,292	) 36,510	(5,081	) 36,414
Beneficial conversion feature transferred from common stock to preferred stock as a result of subordinated debt conversions	5	37	5	206
Subordinated debt converted to preferred stock	31	219	31	1,210

## 4. CASH AND MONEY MARKET INVESTMENTS

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

June 30, 2014

(In thousands)	Description	Gross amounts recognized	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Gross amounts not offset in the balance sheet		Net amount
					Financial instruments	Cash collateral received/pledged	
Assets:							
	Federal funds sold and security resell agreements	\$478,535	\$—	\$478,535	\$—	\$ —	\$478,535
	Derivatives (included in other assets)	57,143	—	57,143	(6,247	) —	50,896
		\$535,678	\$—	\$535,678	\$(6,247	) \$ —	\$529,431
Liabilities:							

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

Federal funds and other short-term borrowings	\$258,401	\$—	\$258,401	\$—	\$ —	\$258,401
Derivatives (included in other liabilities)	56,574	—	56,574	(6,247 )	(32,743 )	17,584
	\$314,975	\$—	\$314,975	\$(6,247 )	\$( 32,743 )	\$275,985

9

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

December 31, 2013							
(In thousands)				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
<b>Assets:</b>							
	Federal funds sold and security resell agreements	\$282,248	\$—	\$282,248	\$—	\$ —	\$282,248
	Derivatives (included in other assets)	65,683	—	65,683	(11,650 )	2,210	56,243
		\$347,931	\$—	\$347,931	\$(11,650 )	\$ 2,210	\$338,491
<b>Liabilities:</b>							
	Federal funds and other short-term borrowings	\$340,348	\$—	\$340,348	\$—	\$ —	\$340,348
	Derivatives (included in other liabilities)	68,397	—	68,397	(11,650 )	(26,997 )	29,750
		\$408,745	\$—	\$408,745	\$(11,650 )	\$(26,997 )	\$370,098

Security resell and repurchase agreements are offset, when applicable, in the balance sheet according to master netting agreements. Security repurchase agreements are included with "Federal funds and other short-term borrowings." 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 7 for further information regarding derivative instruments.

## 5. INVESTMENT SECURITIES

Investment securities are summarized below. Note 10 discusses the process to estimate fair value for investment securities.

June 30, 2014								
(In thousands)	Amortized cost	Recognized in OCI <sup>1</sup>			Not recognized in OCI			
		Gross unrealized gains	Gross unrealized losses	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value	
<b>Held-to-maturity</b>								
	Municipal securities	\$576,318	\$—	\$—	\$576,318	\$13,987	\$936	\$589,369
<b>Asset-backed securities:</b>								
	Trust preferred securities – banks and insurance	79,328	—	40,642	<sup>2</sup> 38,686	16,936	1,165	54,457
	Other debt securities	100	—	—	100	—	—	100
		655,746	—	40,642	615,104	30,923	2,101	643,926
<b>Available-for-sale</b>								
	U.S. Treasury securities	1,499	46	—	1,545			1,545
	U.S. Government agencies and corporations:							



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

Agency securities	604,263	2,509	6,452	600,320	600,320
Agency guaranteed mortgage-backed securities	302,408	11,356	464	313,300	313,300
Small Business Administration loan-backed securities	1,404,788	17,045	6,813	1,415,020	1,415,020
Municipal securities	187,760	1,256	607	188,409	188,409
Asset-backed securities:					
Trust preferred securities – banks and insurance	915,058	11,383	176,289	750,152	750,152
Auction rate securities	6,508	99	29	6,578	6,578
Other	1,114	229	—	1,343	1,343
	3,423,398	43,923	190,654	3,276,667	3,276,667
Mutual funds and other	188,573	60	2,491	186,142	186,142
	3,611,971	43,983	193,145	3,462,809	3,462,809
Total	\$4,267,717	\$43,983	\$233,787	\$4,077,913	\$4,106,735

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	December 31, 2013				Not recognized in OCI		
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Held-to-maturity							
Municipal securities	\$551,055	\$—	\$—	\$551,055	\$11,295	\$4,616	\$557,734
Asset-backed securities:							
Trust preferred securities – banks and insurance	79,419	—	41,593	<sup>2</sup> 37,826	15,195	1,308	51,713
Other debt securities	100	—	—	100	—	—	100
	630,574	—	41,593	588,981	26,490	5,924	609,547
Available-for-sale							
U.S. Treasury securities	1,442	104	—	1,546			1,546
U.S. Government agencies and corporations:							
Agency securities	517,905	1,920	901	518,924			518,924
Agency guaranteed mortgage-backed securities	308,687	9,926	1,237	317,376			317,376
Small Business Administration loan-backed securities	1,202,901	21,129	2,771	1,221,259			1,221,259
Municipal securities	65,425	1,329	490	66,264			66,264
Asset-backed securities:							
Trust preferred securities – banks and insurance	1,508,224	13,439	282,843	1,238,820			1,238,820
Trust preferred securities – real estate investment trusts	22,996	—	—	22,996			22,996
Auction rate securities	6,507	118	26	6,599			6,599
Other	27,540	359	—	27,899			27,899
	3,661,627	48,324	288,268	3,421,683			3,421,683
Mutual funds and other	287,603	21	7,421	280,203			280,203
	3,949,230	48,345	295,689	3,701,886			3,701,886
Total	\$4,579,804	\$48,345	\$337,282	\$4,290,867			\$4,311,433

<sup>1</sup> Other comprehensive income

<sup>2</sup> The gross unrealized losses recognized in OCI on HTM securities resulted from a previous transfer of AFS securities to HTM, and from OTTI.

The amortized cost and estimated fair value of investment debt securities are shown subsequently as of June 30, 2014 by expected maturity distribution for collateralized debt obligations (“CDOs”) and by contractual maturity for other debt securities. Actual maturities may differ from expected or contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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

Due in one year or less	\$68,208	\$69,985	\$518,808	\$503,309
Due after one year through five years	212,364	213,045	1,254,976	1,240,766
Due after five years through ten years	142,532	147,470	729,062	715,698
Due after ten years	232,642	213,426	920,552	816,894
	\$655,746	\$643,926	\$3,423,398	\$3,276,667

Table of Contents

## 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:

June 30, 2014						
(In thousands)	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	\$88	\$7,620	\$848	\$19,235	\$936	\$26,855
Asset-backed securities:						
Trust preferred securities – banks and insurance	55	79	41,752	54,378	41,807	54,457
	143	7,699	42,600	73,613	42,743	81,312
Available-for-sale						
U.S. Government agencies and corporations:						
Agency securities	6,394	366,792	58	5,740	6,452	372,532
Agency guaranteed mortgage-backed securities	145	15,807	319	16,641	464	32,448
Small Business Administration loan-backed securities	5,610	443,875	1,203	37,237	6,813	481,112
Municipal securities	77	15,561	530	2,697	607	18,258
Asset-backed securities:						
Trust preferred securities – banks and insurance	—	—	176,289	647,348	176,289	647,348
Auction rate securities	8	1,606	21	891	29	2,497
	12,234	843,641	178,420	710,554	190,654	1,554,195
Mutual funds and other	915	42,852	1,576	48,516	2,491	91,368
	13,149	886,493	179,996	759,070	193,145	1,645,563
Total	\$13,292	\$894,192	\$222,596	\$832,683	\$235,888	\$1,726,875

  

December 31, 2013						
(In thousands)	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	\$4,025	\$70,400	\$591	\$9,103	\$4,616	\$79,503
Asset-backed securities:						
Trust preferred securities – banks and insurance	—	—	42,901	51,319	42,901	51,319
	4,025	70,400	43,492	60,422	47,517	130,822
Available-for-sale						
U.S. Government agencies and corporations:						
Agency securities	828	47,862	73	5,874	901	53,736
	1,231	64,533	6	935	1,237	65,468

Agency guaranteed mortgage-backed securities						
Small Business Administration loan-backed securities	1,709	187,680	1,062	39,256	2,771	226,936
Municipal securities	73	8,834	417	3,179	490	12,013
Asset-backed securities:						
Trust preferred securities – banks and insurance	2,539	51,911	280,304	847,990	282,843	899,901
Auction rate securities	5	1,609	21	892	26	2,501
	6,385	362,429	281,883	898,126	288,268	1,260,555
Mutual funds and other	943	24,057	6,478	103,614	7,421	127,671
	7,328	386,486	288,361	1,001,740	295,689	1,388,226
Total	\$11,353	\$456,886	\$331,853	\$1,062,162	\$343,206	\$1,519,048

At June 30, 2014 and December 31, 2013, respectively, 72 and 157 held-to-maturity (“HTM”) and 338 and 317 available-for-sale (“AFS”) investment securities were in an unrealized loss position.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

Other-Than-Temporary Impairment

Ongoing Policy

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.

Noncredit-related OTTI in securities we intend to sell is recognized in earnings as is any credit-related OTTI in securities, regardless of our intent. Noncredit-related OTTI on AFS securities not expected to be sold is recognized in OCI. The amount of noncredit-related OTTI in a security is quantified as the difference in a security’s amortized cost after adjustment for credit impairment, and its lower fair value. 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.

Effect of Volcker Rule and Interim Final Rule

On December 10, 2013, the final Volcker Rule (“VR”) was published pursuant to the Dodd-Frank Act. The VR significantly restricted certain activities by covered bank holding companies, including restrictions on certain types of securities, proprietary trading, and private equity investing. On January 14, 2014, the VR’s application to certain CDO securities was revised by an Interim Final Rule (“IFR”) related primarily to bank trust preferred CDO securities.

Certain of the Company’s CDO securities backed primarily by insurance trust preferred securities, real estate investment trust (“REIT”) securities, and asset-backed securities (“ABS”) became disallowed to be held effective July 21, 2015 under the VR and the IFR. This regulatory change resulted in the Company no longer being able to hold these securities to maturity. Further, to reduce the risk profile of the portfolio, we determined as of December 31, 2013, an intent to sell certain disallowed as well as other allowed CDO securities.

During the first quarter of 2014, we recorded a total of \$993 million par amount of sales and paydowns of CDO securities. Included in this amount were \$631 million par amount that had been identified for sale as of December 31, 2013 and their amortized cost was adjusted to fair value as of that date. Another \$301 million par amount of primarily insurance CDOs were not adjusted to fair value at December 31, 2013 because the Company did not, at that date, intend to sell these securities. Net gains for the first quarter were approximately \$31 million.

During the second quarter of 2014, we recorded \$25 million par amount of paydowns of CDO securities, which resulted in gains of approximately \$5 million. No CDO securities were sold during the second quarter.

OTTI Conclusions

Our 2013 Annual Report on Form 10-K describes in more detail our OTTI evaluation process. The following summarizes the conclusions from our OTTI evaluation according to the security type that has significant gross unrealized losses at June 30, 2014:

OTTI – Asset-Backed Securities

Trust preferred securities – banks and insurance: These 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

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(“Lockhart”), a previously consolidated qualifying special-purpose entity securities conduit, 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:

Market yield requirements for bank CDO securities remain elevated. 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 (“PIK”) feature described subsequently. The resulting increase in the rate of return demanded by the market for trust preferred CDOs remains substantially higher than the contractual interest rates. CDO tranches backed by bank trust preferred securities continue to be characterized by 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.

Structural features of the collateral make these CDO tranches difficult for market participants to model. The first feature unique to bank CDOs is the interest deferral feature previously noted. Throughout the 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.

A second structural feature that is difficult to model is the 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 delay in payment caused by PIKing results in lower security fair values even if PIKing is projected to be fully cured.

The ratings from one NRSRO remain below-investment-grade for even some of the most senior tranches that originally were rated AAA or the equivalent. 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 generally reduces the pool of buyers, which causes greater illiquidity and therefore most likely a higher implicit discount rate/lower price with regard to that CDO tranche.

Our ongoing review of these securities determined that no OTTI should be recorded in the second quarter of 2014. An immaterial amount was recorded in the first quarter of 2014.

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

(In thousands)	Three Months Ended			Six Months Ended		
	June 30, 2014			June 30, 2014		
	HTM	AFS	Total	HTM	AFS	Total
Balance of credit-related OTTI at beginning of period	\$ (9,079 )	\$ (163,914 )	\$ (172,993 )	\$ (9,052 )	\$ (176,833 )	\$ (185,885 )
Additions recognized in earnings during the period:						
Credit-related OTTI on securities not previously impaired	—	—	—	—	—	—
Additional credit-related OTTI on securities previously impaired	—	—	—	(27 )	—	(27 )
Subtotal of amounts recognized in earnings	—	—	—	(27 )	—	(27 )
Reductions for securities sold or paid off during the period	—	—	—	—	12,919	12,919
	\$ (9,079 )	\$ (163,914 )	\$ (172,993 )	\$ (9,079 )	\$ (163,914 )	\$ (172,993 )



Balance of credit-related OTTI at end of  
period

14

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
	HTM	AFS	Total	HTM	AFS	Total
Balance of credit-related OTTI at beginning of period	\$(13,952)	\$(404,208)	\$(418,160)	\$(13,549)	\$(394,494)	\$(408,043)
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	—	(4,217)	(4,217)	—	(13,931)	(13,931)
Subtotal of amounts recognized in earnings	—	(4,217)	(4,217)	(403)	(13,931)	(14,334)
Reductions for securities sold or paid off during the period	—	1,848	1,848	—	1,848	1,848
Balance of credit-related OTTI at end of period	\$(13,952)	\$(406,577)	\$(420,529)	\$(13,952)	\$(406,577)	\$(420,529)

To determine the credit component of OTTI for all security types, we utilize projected cash flows. These cash flows are credit adjusted using, among other things, assumptions for default probability and loss severity. Certain other unobservable inputs such as prepayment rate assumptions are also utilized. In addition, certain internal and external models may be utilized. See Note 10 for further discussion. 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.

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

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
HTM	\$—	\$—	\$—	\$16,114
AFS	—	693	—	5,955
	\$—	\$693	\$—	\$22,069

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

(In thousands)	Three Months Ended June 30, 2014				Six Months Ended June 30, 2014			
	Gross gains	Gross losses	Gross gains	Gross losses	Gross gains	Gross losses	Gross gains	Gross losses
Investment securities:								
Held-to-maturity	\$—	\$—	\$7	\$—	\$—	\$27	\$31	\$403
Available-for-sale	5,032	6	3,162	8,539	77,593	41,653	6,438	18,254
Other noninterest-bearing investments:								

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

Nonmarketable equity securities	3,745	1,232	2,209	—	4,657	1,232	5,066	25
	8,777	1,238	5,378	8,539	82,250	42,912	11,535	18,682
Net gains (losses)		\$7,539		\$(3,161 )		\$39,338		\$(7,147 )
Statement of income information:								
Net impairment losses on investment securities		\$—		\$(4,217 )		\$(27 )		\$(14,334)
Equity securities gains, net		2,513		2,209		3,425		5,041
Fixed income securities gains (losses), net		5,026		(1,153 )		35,940		2,146
Net gains (losses)		\$7,539		\$(3,161 )		\$39,338		\$(7,147 )

15

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

Interest income by security type is as follows:

(In thousands)	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
	Taxable	Nontaxable	Total	Taxable	Nontaxable	Total
Investment securities:						
Held-to-maturity	\$3,721	\$2,807	\$6,528	\$7,549	\$5,643	\$13,192
Available-for-sale	16,780	628	17,408	37,204	1,152	38,356
Trading	566	—	566	1,048	—	1,048
	\$21,067	\$3,435	\$24,502	\$45,801	\$6,795	\$52,596

(In thousands)	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
	Taxable	Nontaxable	Total	Taxable	Nontaxable	Total
Investment securities:						
Held-to-maturity	\$5,012	\$2,834	\$7,846	\$10,085	\$5,735	\$15,820
Available-for-sale	18,517	511	19,028	35,690	1,050	36,740
Trading	287	—	287	477	—	477
	\$23,816	\$3,345	\$27,161	\$46,252	\$6,785	\$53,037

Securities with a carrying value of \$1.4 billion at June 30, 2014 and \$1.5 billion at December 31, 2013 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.

## 6. LOANS AND ALLOWANCE FOR CREDIT LOSSES

## Loans and Loans Held for Sale

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

(In thousands)	June 30, 2014	December 31, 2013
Loans held for sale	\$164,374	\$171,328
Commercial:		
Commercial and industrial	\$12,805,303	\$12,481,083
Leasing	415,205	387,929
Owner occupied	7,386,414	7,437,195
Municipal	522,327	449,418
Total commercial	21,129,249	20,755,625
Commercial real estate:		
Construction and land development	2,340,249	2,182,821
Term	7,968,625	8,005,837
Total commercial real estate	10,308,874	10,188,658
Consumer:		
Home equity credit line	2,204,174	2,133,120
1-4 family residential	4,827,067	4,736,665
Construction and other consumer real estate	338,170	324,922
Bankcard and other revolving plans	376,366	356,240

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

Other	195,895	197,864
Total consumer	7,941,672	7,748,811
FDIC-supported/PCI loans	250,568	350,271
Total loans	\$39,630,363	\$39,043,365

16

---

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

Loan balances are presented net of unearned income and fees, which amounted to \$149.6 million at June 30, 2014 and \$141.7 million at December 31, 2013.

Owner occupied and commercial real estate (“CRE”) loans include unamortized premiums of approximately \$41.6 million at June 30, 2014 and \$47.2 million at December 31, 2013.

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.

Land development loans included in the construction and land development loan class were \$540.1 million at June 30, 2014 and \$561.3 million at December 31, 2013.

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 (“PCI”) loans accounted for at their carrying values rather than their outstanding balances. See subsequent discussion under Purchased Loans.

Loans with a carrying value of approximately \$23.4 billion at June 30, 2014 and \$23.0 billion at December 31, 2013 have been pledged at the Federal Reserve and various Federal Home Loan Banks (“FHLB”) as collateral for current and potential borrowings.

We sold loans with a carrying value of \$260.1 million and \$597.7 million for the three and six months ended June 30, 2014, and \$446.7 million and \$894.3 million for the three and six months ended June 30, 2013, respectively, that were classified as loans held for sale. The sold loans were derecognized from the balance sheet. Loans classified as loans held for sale primarily consist of conforming residential mortgages. The principal balance of sold loans for which we retain servicing was approximately \$1.2 billion at both June 30, 2014 and December 31, 2013.

Amounts added to loans held for sale during these periods were \$301.6 million and \$597.1 million for the three and six months ended June 30, 2014, and \$418.9 million and \$777.8 million for the three and six months ended June 30, 2013, respectively. Income from loans sold, excluding servicing, was \$3.6 million and \$7.1 million for the three and six months ended June 30, 2014, and \$8.0 million and \$16.5 million for the three and six months ended June 30, 2013, respectively.

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 consumer 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



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

impaired loans is discussed subsequently. For the commercial and CRE segments, we use a comprehensive loan grading system to assign probability of default (“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 period of January 2008 through the most recent full quarter.

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/PCI 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.

The current status and historical changes in qualitative and environmental factors may not be reflected in our quantitative models. Thus, 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. 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

- ▲National economic and business conditions

- ▲Regional and local economic and business conditions

- ▲Data availability and applicability

- ▲Effects of other external factors

The magnitude of the impact of these factors on our qualitative assessment of the ALLL changes from quarter to quarter according to the extent these factors are already reflected in historic loss rates and according to the extent these factors diverge from one 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.





Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

(In thousands)	Three Months Ended June 30, 2014				Total
	Commercial	Commercial real estate	Consumer	FDIC-supported/PCI <sup>1</sup>	
Allowance for loan losses:					
Balance at beginning of period	\$474,548	\$206,546	\$51,080	\$ 4,779	\$736,953
Additions:					
Provision for loan losses	(29,878 )	(19,348 )	(5,232 )	42	(54,416 )
Adjustment for FDIC-supported/PCI loans				(444 )	(444 )
Deductions:					
Gross loan and lease charge-offs	(15,003 )	(2,961 )	(4,258 )	(1,178 )	(23,400 )
Recoveries	10,567	3,024	2,945	678	17,214
Net loan and lease charge-offs	(4,436 )	63	(1,313 )	(500 )	(6,186 )
Balance at end of period	\$440,234	\$187,261	\$44,535	\$ 3,877	\$675,907
Reserve for unfunded lending commitments:					
Balance at beginning of period	\$49,870	\$35,273	\$3,550	\$ —	\$88,693
Provision charged (credited) to earnings	2,931	3,416	432	—	6,779
Balance at end of period	\$52,801	\$38,689	\$3,982	\$ —	\$95,472
Total allowance for credit losses at end of period:					
Allowance for loan losses	\$440,234	\$187,261	\$44,535	\$ 3,877	\$675,907
Reserve for unfunded lending commitments	52,801	38,689	3,982	—	95,472
Total allowance for credit losses	\$493,035	\$225,950	\$48,517	\$ 3,877	\$771,379
(In thousands)	Six Months Ended June 30, 2014				Total
	Commercial	Commercial real estate	Consumer	FDIC-supported/PCI <sup>1</sup>	
Allowance for loan losses:					
Balance at beginning of period	\$465,145	\$213,363	\$60,865	\$ 6,918	\$746,291
Additions:					
Provision for loan losses	(18,196 )	(20,915 )	(14,100 )	(1,815 )	(55,026 )
Adjustment for FDIC-supported/PCI loans				(1,261 )	(1,261 )
Deductions:					
Gross loan and lease charge-offs	(24,127 )	(10,815 )	(7,372 )	(1,881 )	(44,195 )
Recoveries	17,412	5,628	5,142	1,916	30,098
Net loan and lease charge-offs	(6,715 )	(5,187 )	(2,230 )	35	(14,097 )
Balance at end of period	\$440,234	\$187,261	\$44,535	\$ 3,877	\$675,907
Reserve for unfunded lending commitments:					
Balance at beginning of period	\$48,345	\$37,485	\$3,875	\$ —	\$89,705
Provision charged (credited) to earnings	4,456	1,204	107	—	5,767
Balance at end of period	\$52,801	\$38,689	\$3,982	\$ —	\$95,472
Total allowance for credit losses at end of period:					
Allowance for loan losses	\$440,234	\$187,261	\$44,535	\$ 3,877	\$675,907

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

Reserve for unfunded lending commitments	52,801	38,689	3,982	—	95,472
Total allowance for credit losses	\$493,035	\$225,950	\$48,517	\$ 3,877	\$771,379

19

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	Three Months Ended June 30, 2013				Total
	Commercial	Commercial real estate	Consumer	FDIC- supported/PCI <sup>1</sup>	
Allowance for loan losses:					
Balance at beginning of period	\$496,930	\$256,421	\$84,622	\$ 3,808	\$841,781
Additions:					
Provision for loan losses	(5,182)	(11,222)	(8,274)	2,688	(21,990)
Adjustment for FDIC-supported/PCI loans	—	—	—	(209)	(209)
Deductions:					
Gross loan and lease charge-offs	(18,508)	(6,107)	(9,102)	(1,382)	(35,099)
Recoveries	13,113	12,186	3,120	1,010	29,429
Net loan and lease charge-offs	(5,395)	6,079	(5,982)	(372)	(5,670)
Balance at end of period	\$486,353	\$251,278	\$70,366	\$ 5,915	\$813,912
Reserve for unfunded lending commitments:					
Balance at beginning of period	\$65,632	\$33,240	\$1,583	\$ —	\$100,455
Provision charged (credited) to earnings	(2,360)	6,214	(227)	—	3,627
Balance at end of period	\$63,272	\$39,454	\$1,356	\$ —	\$104,082
Total allowance for credit losses at end of period:					
Allowance for loan losses	\$486,353	\$251,278	\$70,366	\$ 5,915	\$813,912
Reserve for unfunded lending commitments	63,272	39,454	1,356	—	104,082
Total allowance for credit losses	\$549,625	\$290,732	\$71,722	\$ 5,915	\$917,994
(In thousands)	Six Months Ended June 30, 2013				Total
	Commercial	Commercial real estate	Consumer	FDIC- supported/PCI <sup>1</sup>	
Allowance for loan losses:					
Balance at beginning of period	\$510,908	\$276,976	\$95,656	\$ 12,547	\$896,087
Additions:					
Provision for loan losses	(8,411)	(29,850)	(13,294)	530	(51,025)
Adjustment for FDIC-supported/PCI loans	—	—	—	(7,638)	(7,638)
Deductions:					
Gross loan and lease charge-offs	(36,608)	(13,331)	(19,039)	(1,588)	(70,566)
Recoveries	20,464	17,483	7,043	2,064	47,054
Net loan and lease charge-offs	(16,144)	4,152	(11,996)	476	(23,512)
Balance at end of period	\$486,353	\$251,278	\$70,366	\$ 5,915	\$813,912
Reserve for unfunded lending commitments:					
Balance at beginning of period	\$67,374	\$37,852	\$1,583	\$ —	\$106,809
Provision charged (credited) to earnings	(4,102)	1,602	(227)	—	(2,727)
Balance at end of period	\$63,272	\$39,454	\$1,356	\$ —	\$104,082
Total allowance for credit losses at end of period:					
Allowance for loan losses	\$486,353	\$251,278	\$70,366	\$ 5,915	\$813,912
Reserve for unfunded lending commitments	63,272	39,454	1,356	—	104,082
Total allowance for credit losses	\$549,625	\$290,732	\$71,722	\$ 5,915	\$917,994

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

20

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

The ALLL and outstanding loan balances according to the Company's impairment method are summarized as follows:  
June 30, 2014

(In thousands)	Commercial	Commercial real estate	Consumer	FDIC- supported/PCI	Total
Allowance for loan losses:					
Individually evaluated for impairment	\$35,940	\$5,788	\$9,260	\$ —	\$50,988
Collectively evaluated for impairment	404,294	181,473	35,275	37	621,079
Purchased loans with evidence of credit deterioration	—	—	—	3,840	3,840
Total	\$440,234	\$187,261	\$44,535	\$ 3,877	\$675,907
Outstanding loan balances:					
Individually evaluated for impairment	\$304,303	\$219,238	\$97,668	\$ 1,229	\$622,438
Collectively evaluated for impairment	20,824,946	10,089,636	7,844,004	35,657	38,794,243
Purchased loans with evidence of credit deterioration	—	—	—	213,682	213,682
Total	\$21,129,249	\$10,308,874	\$7,941,672	\$ 250,568	\$39,630,363

December 31, 2013

(In thousands)	Commercial	Commercial real estate	Consumer	FDIC- supported/PCI	Total
Allowance for loan losses:					
Individually evaluated for impairment	\$39,288	\$12,510	\$10,701	\$ —	\$62,499
Collectively evaluated for impairment	425,857	200,853	50,164	392	677,266
Purchased loans with evidence of credit deterioration	—	—	—	6,526	6,526
Total	\$465,145	\$213,363	\$60,865	\$ 6,918	\$746,291
Outstanding loan balances:					
Individually evaluated for impairment	\$315,604	\$262,907	\$101,545	\$ 1,224	\$681,280
Collectively evaluated for impairment	20,440,021	9,925,751	7,647,266	37,963	38,051,001
Purchased loans with evidence of credit deterioration	—	—	—	311,084	311,084
Total	\$20,755,625	\$10,188,658	\$7,748,811	\$ 350,271	\$39,043,365

**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.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

Nonaccrual loans are summarized as follows:

(In thousands)	June 30, 2014	December 31, 2013
Loans held for sale	\$29,453	\$—
Commercial:		
Commercial and industrial	\$82,646	\$97,960
Leasing	668	757
Owner occupied	100,617	136,281
Municipal	8,951	9,986
Total commercial	192,882	244,984
Commercial real estate:		
Construction and land development	23,616	29,205
Term	44,042	60,380
Total commercial real estate	67,658	89,585
Consumer:		
Home equity credit line	11,367	8,969
1-4 family residential	44,668	53,002
Construction and other consumer real estate	2,462	3,510
Bankcard and other revolving plans	600	1,365
Other	325	804
Total consumer loans	59,422	67,650
FDIC-supported/PCI loans	2,032	4,394
Total	\$321,994	\$406,613

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

(In thousands)	June 30, 2014					Total loans	Accruing loans 90+ days past due	Nonaccrual loans that are current <sup>1</sup>
	Current	30-89 days past due	90+ days past due	Total past due	Total loans			
Loans held for sale	\$157,062	\$4,479	\$2,833	\$7,312	\$164,374	\$—	\$22,141	
Commercial:								
Commercial and industrial	\$12,694,068	\$67,955	\$43,280	\$111,235	\$12,805,303	\$1,537	\$27,058	
Leasing	414,954	—	251	251	415,205	—	417	
Owner occupied	7,321,609	22,324	42,481	64,805	7,386,414	2,145	58,200	
Municipal	517,581	4,746	—	4,746	522,327	—	4,205	
Total commercial	20,948,212	95,025	86,012	181,037	21,129,249	3,682	89,880	
Commercial real estate:								
Construction and land development	2,328,070	296	11,883	12,179	2,340,249	2,239	13,972	
Term	7,922,149	17,603	28,873	46,476	7,968,625	5,648	18,509	
Total commercial real estate	10,250,219	17,899	40,756	58,655	10,308,874	7,887	32,481	
Consumer:								
Home equity credit line	2,191,199	4,113	8,862	12,975	2,204,174	—	1,827	
1-4 family residential	4,798,122	10,523	18,422	28,945	4,827,067	1,126	21,729	
	336,016	1,049	1,105	2,154	338,170	164	1,323	



Construction and other consumer real estate							
Bankcard and other revolving plans	374,012	1,273	1,081	2,354	376,366	869	337
Other	195,164	520	211	731	195,895	—	113
Total consumer loans	7,894,513	17,478	29,681	47,159	7,941,672	2,159	25,329
FDIC-supported/PCI loans	203,683	8,144	38,741	46,885	250,568	38,018	1,131
Total	\$39,296,627	\$138,546	\$195,190	\$333,736	\$39,630,363	\$51,746	\$148,821

22

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	December 31, 2013				Total loans	Accruing loans 90+ days past due	Nonaccrual loans that are current <sup>1</sup>
	Current	30-89 days past due	90+ days past due	Total past due			
Loans held for sale	\$ 171,328	\$—	\$—	\$—	\$ 171,328	\$—	\$—
Commercial:							
Commercial and industrial	\$ 12,387,546	\$ 48,811	\$ 44,726	\$ 93,537	\$ 12,481,083	\$ 1,855	\$ 52,412
Leasing	387,526	173	230	403	387,929	36	563
Owner occupied	7,357,618	36,718	42,859	79,577	7,437,195	744	82,072
Municipal	440,608	3,307	5,503	8,810	449,418	—	1,176
Total commercial	20,573,298	89,009	93,318	182,327	20,755,625	2,635	136,223
Commercial real estate:							
Construction and land development	2,162,018	8,967	11,836	20,803	2,182,821	23	17,311
Term	7,971,327	15,362	19,148	34,510	8,005,837	5,580	42,624
Total commercial real estate	10,133,345	24,329	30,984	55,313	10,188,658	5,603	59,935
Consumer:							
Home equity credit line	2,122,549	8,001	2,570	10,571	2,133,120	98	2,868
1-4 family residential	4,704,852	8,526	23,287	31,813	4,736,665	667	27,592
Construction and other consumer real estate	322,807	1,038	1,077	2,115	324,922	—	2,232
Bankcard and other revolving plans	353,060	2,093	1,087	3,180	356,240	900	1,105
Other	196,327	827	710	1,537	197,864	54	125
Total consumer loans	7,699,595	20,485	28,731	49,216	7,748,811	1,719	33,922
FDIC-supported/PCI loans	305,709	12,026	32,536	44,562	350,271	30,391	1,975
Total	\$ 38,711,947	\$ 145,849	\$ 185,569	\$ 331,418	\$ 39,043,365	\$ 40,348	\$ 232,055

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

**Credit Quality Indicators**

In addition to the past due and nonaccrual criteria, we also analyze loans using loan risk grading systems, which vary based on the size and type of credit risk exposure. The internal risk grades assigned to loans 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 deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the bank’s credit position at some future date.

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 and improbable.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

We generally assign internal risk grades to commercial and CRE loans with commitments equal to or greater than \$750,000 based on financial and statistical models, individual credit analysis, and loan officer judgment. For these larger loans, we assign one of 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 confirm our internal risk grades quarterly, or as soon as we identify information that affects the credit risk of the loan.

For consumer loans or certain small commercial loans with commitments equal to or less than \$750,000, we generally assign internal risk grades similar to those described previously based on automated rules that depend on refreshed credit scores, payment performance, and other risk indicators. These are generally assigned either a Pass or Substandard grade and are reviewed as we identify information that might warrant a grade change.

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

(In thousands)	June 30, 2014					Total loans	Total allowance
	Pass	Special Mention	Sub- standard	Doubtful			
Loans held for sale	\$ 148,381	\$ 15,993	\$—	\$—	\$ 164,374	\$—	
Commercial:							
Commercial and industrial	\$ 12,105,752	\$ 237,639	\$ 459,167	\$ 2,745	\$ 12,805,303		
Leasing	408,963	3,801	2,441	—	415,205		
Owner occupied	6,801,947	201,329	383,138	—	7,386,414		
Municipal	513,376	—	8,951	—	522,327		
Total commercial	19,830,038	442,769	853,697	2,745	21,129,249	\$ 440,234	
Commercial real estate:							
Construction and land development	2,279,946	9,334	50,969	—	2,340,249		
Term	7,634,361	107,039	227,225	—	7,968,625		
Total commercial real estate	9,914,307	116,373	278,194	—	10,308,874	187,261	
Consumer:							
Home equity credit line	2,182,585	—	21,589	—	2,204,174		
1-4 family residential	4,767,970	—	59,097	—	4,827,067		
Construction and other consumer real estate	332,101	—	6,069	—	338,170		
Bankcard and other revolving plans	374,281	—	2,085	—	376,366		
Other	195,323	—	572	—	195,895		
Total consumer loans	7,852,260	—	89,412	—	7,941,672	44,535	
FDIC-supported/PCI loans	153,253	17,286	80,029	—	250,568	3,877	
Total	\$ 37,749,858	\$ 576,428	\$ 1,301,332	\$ 2,745	\$ 39,630,363	\$ 675,907	

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	December 31, 2013					Total loans	Total allowance
	Pass	Special Mention	Sub- standard	Doubtful			
Loans held for sale	\$ 171,328	\$—	\$—	\$—	\$—	\$ 171,328	\$—
Commercial:							
Commercial and industrial	\$ 11,807,825	\$ 303,598	\$ 360,391	\$ 9,269		\$ 12,481,083	
Leasing	380,268	2,050	5,611	—		387,929	
Owner occupied	6,827,464	184,328	425,403	—		7,437,195	
Municipal	439,432	—	9,986	—		449,418	
Total commercial	19,454,989	489,976	801,391	9,269		20,755,625	\$ 465,145
Commercial real estate:							
Construction and land development	2,107,828	15,010	59,983	—		2,182,821	
Term	7,569,472	172,856	263,509	—		8,005,837	
Total commercial real estate	9,677,300	187,866	323,492	—		10,188,658	213,363
Consumer:							
Home equity credit line	2,111,475	—	21,645	—		2,133,120	
1-4 family residential	4,668,841	—	67,824	—		4,736,665	
Construction and other consumer real estate	313,881	—	11,041	—		324,922	
Bankcard and other revolving plans	353,618	—	2,622	—		356,240	
Other	196,770	—	1,094	—		197,864	
Total consumer loans	7,644,585	—	104,226	—		7,748,811	60,865
FDIC-supported/PCI loans	232,893	22,532	94,846	—		350,271	6,918
Total	\$ 37,009,767	\$ 700,374	\$ 1,323,955	\$ 9,269		\$ 39,043,365	\$ 746,291

**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-purchased credit-impaired 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 individually 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/PCI 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. 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 and six months ended June 30, 2014 and 2013 was not significant.

Information on impaired loans individually evaluated is summarized as follows, including the average recorded investment and interest income recognized for the six months ended June 30, 2014 and 2013:

25

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	June 30, 2014				
	Unpaid principal balance	Recorded investment with no allowance with allowance		Total recorded investment	Related allowance
Commercial:					
Commercial and industrial	\$212,998	\$19,380	\$139,936	\$159,316	\$24,970
Owner occupied	132,060	49,728	62,514	112,242	5,604
Municipal	9,429	1,106	7,844	8,950	1,798
Total commercial	354,487	70,214	210,294	280,508	32,372
Commercial real estate:					
Construction and land development	62,346	22,454	30,339	52,793	2,433
Term	150,332	72,672	33,659	106,331	1,894
Total commercial real estate	212,678	95,126	63,998	159,124	4,327
Consumer:					
Home equity credit line	19,981	11,463	5,164	16,627	155
1-4 family residential	88,987	39,138	35,961	75,099	8,584
Construction and other consumer real estate	3,903	1,608	1,094	2,702	242
Bankcard and other revolving plans	—	—	—	—	—
Total consumer loans	112,871	52,209	42,219	94,428	8,981
FDIC-supported/PCI loans	282,088	94,740	120,171	214,911	3,840
Total	\$962,124	\$312,289	\$436,682	\$748,971	\$49,520
December 31, 2013					
(In thousands)	Unpaid principal balance	Recorded investment with no allowance with allowance		Total recorded investment	Related allowance
Commercial:					
Commercial and industrial	\$167,816	\$28,917	\$117,881	\$146,798	\$22,462
Owner occupied	151,499	50,361	88,584	138,945	13,900
Municipal	10,465	1,175	8,811	9,986	1,225
Total commercial	329,780	80,453	215,276	295,729	37,587
Commercial real estate:					
Construction and land development	85,440	19,206	50,744	69,950	3,483
Term	171,826	34,258	112,330	146,588	7,981
Total commercial real estate	257,266	53,464	163,074	216,538	11,464
Consumer:					
Home equity credit line	17,547	12,568	2,200	14,768	178
1-4 family residential	95,613	38,775	42,132	80,907	10,276
Construction and other consumer real estate	4,713	2,643	933	3,576	175
Bankcard and other revolving plans	726	726	—	726	—
Total consumer loans	118,599	54,712	45,265	99,977	10,629
FDIC-supported/PCI loans	404,308	83,917	228,392	312,309	6,526
Total	\$1,109,953	\$272,546	\$652,007	\$924,553	\$66,206





Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial:				
Commercial and industrial	\$182,556	\$875	\$175,150	\$1,898
Owner occupied	139,901	752	139,623	1,500
Municipal	9,270	—	9,615	—
Total commercial	331,727	1,627	324,388	3,398
Commercial real estate:				
Construction and land development	59,488	386	60,939	938
Term	136,152	1,058	134,024	2,120
Total commercial real estate	195,640	1,444	194,963	3,058
Consumer:				
Home equity credit line	16,512	136	15,686	270
1-4 family residential	79,764	439	79,077	886
Construction and other consumer real estate	3,005	33	3,008	68
Other	—	—	—	—
Total consumer loans	99,281	608	97,771	1,224
FDIC-supported/PCI loans	236,436	14,419	<sup>1</sup> 260,297	36,739
Total	\$863,084	\$18,098	\$877,419	\$44,419

(In thousands)	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial:				
Commercial and industrial	\$161,960	\$861	\$153,230	\$1,519
Owner occupied	213,757	959	209,928	1,878
Municipal	8,999	—	9,100	—
Total commercial	384,716	1,820	372,258	3,397
Commercial real estate:				
Construction and land development	142,428	1,558	145,234	2,215
Term	284,518	1,984	287,464	3,824
Total commercial real estate	426,946	3,542	432,698	6,039
Consumer:				
Home equity credit line	13,462	85	12,459	143
1-4 family residential	100,395	354	98,914	725
Construction and other consumer real estate	5,626	47	5,874	93
Other	1,782	—	1,799	—
Total consumer loans	121,265	486	119,046	961
FDIC-supported/PCI loans	404,652	33,996	<sup>1</sup> 425,972	59,149
Total	\$1,337,579	\$39,844	\$1,349,974	\$69,546

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



Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

Modified and Restructured Loans

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

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

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

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:

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	June 30, 2014						
	Recorded investment resulting from the following modification types:						
	Interest rate below market	Maturity or term extension	Principal forgiveness	Payment deferral	Other <sup>1</sup>	Multiple modification types <sup>2</sup>	Total
Accruing							
Commercial:							
Commercial and industrial	\$ 338	\$ 8,285	\$ 20	\$ 2,909	\$ 4,060	\$ 82,439	\$ 98,051
Owner occupied	20,853	1,200	974	1,272	11,642	21,790	57,731
Total commercial	21,191	9,485	994	4,181	15,702	104,229	155,782
Commercial real estate:							
Construction and land development	—	6,546	—	745	545	22,757	30,593
Term	8,541	8,916	186	3,639	5,287	45,081	71,650
Total commercial real estate	8,541	15,462	186	4,384	5,832	67,838	102,243
Consumer:							
Home equity credit line	742	—	10,566	—	164	611	12,083
1-4 family residential	2,588	53	6,949	634	1,424	36,250	47,898
Construction and other consumer real estate	118	633	46	—	—	1,403	2,200
Total consumer loans	3,448	686	17,561	634	1,588	38,264	62,181
Total accruing	33,180	25,633	18,741	9,199	23,122	210,331	320,206
Nonaccruing							
Commercial:							
Commercial and industrial	661	1,473	—	1,051	210	16,267	19,662
Owner occupied	3,351	896	560	959	7,720	12,346	25,832
Municipal	—	1,106	—	—	—	—	1,106
Total commercial	4,012	3,475	560	2,010	7,930	28,613	46,600
Commercial real estate:							
Construction and land development	11,396	558	—	—	3,373	7,032	22,359
Term	3,031	—	—	1,420	329	6,570	11,350
Total commercial real estate	14,427	558	—	1,420	3,702	13,602	33,709
Consumer:							
Home equity credit line	—	—	687	—	216	—	903
1-4 family residential	3,421	47	1,712	164	4,179	11,620	21,143
Construction and other consumer real estate	4	678	—	—	—	120	802
Bankcard and other revolving plans	—	—	—	—	—	—	—
Total consumer loans	3,425	725	2,399	164	4,395	11,740	22,848
Total nonaccruing	21,864	4,758	2,959	3,594	16,027	53,955	103,157
Total	\$ 55,044	\$ 30,391	\$ 21,700	\$ 12,793	\$ 39,149	\$ 264,286	\$ 423,363



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	December 31, 2013						
	Recorded investment resulting from the following modification types:						
	Interest rate below market	Maturity or term extension	Principal forgiveness	Payment deferral	Other <sup>1</sup>	Multiple modification types <sup>2</sup>	Total
Accruing							
Commercial:							
Commercial and industrial	\$ 1,143	\$ 9,848	\$ 11,491	\$ 3,217	\$ 4,308	\$ 53,117	\$ 83,124
Owner occupied	22,841	1,482	987	1,291	9,659	23,576	59,836
Total commercial	23,984	11,330	12,478	4,508	13,967	76,693	142,960
Commercial real estate:							
Construction and land development	1,067	8,231	—	1,063	4,119	28,295	42,775
Term	7,542	9,241	190	3,783	14,932	61,024	96,712
Total commercial real estate	8,609	17,472	190	4,846	19,051	89,319	139,487
Consumer:							
Home equity credit line	743	—	9,438	—	323	332	10,836
1-4 family residential	2,628	997	6,814	643	3,083	35,869	50,034
Construction and other consumer real estate	128	329	11	—	—	1,514	1,982
Total consumer loans	3,499	1,326	16,263	643	3,406	37,715	62,852
Total accruing	36,092	30,128	28,931	9,997	36,424	203,727	345,299
Nonaccruing							
Commercial:							
Commercial and industrial	2,028	5,814	—	473	8,948	10,395	27,658
Owner occupied	3,020	1,489	1,043	1,593	10,482	14,927	32,554
Municipal	—	1,175	—	—	—	—	1,175
Total commercial	5,048	8,478	1,043	2,066	19,430	25,322	61,387
Commercial real estate:							
Construction and land development	11,699	1,555	—	—	5,303	8,617	27,174
Term	2,126	—	—	1,943	315	14,861	19,245
Total commercial real estate	13,825	1,555	—	1,943	5,618	23,478	46,419
Consumer:							
Home equity credit line	—	—	1,036	—	221	—	1,257
1-4 family residential	4,315	1,396	1,606	—	3,901	14,109	25,327
Construction and other consumer real estate	4	1,260	—	—	—	229	1,493
Bankcard and other revolving plans	—	252	—	—	—	—	252
Total consumer loans	4,319	2,908	2,642	—	4,122	14,338	28,329
Total nonaccruing	23,192	12,941	3,685	4,009	29,170	63,138	136,135
Total	\$ 59,284	\$ 43,069	\$ 32,616	\$ 14,006	\$ 65,594	\$ 266,865	\$ 481,434

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

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

Unused commitments to extend credit on TDRs amounted to approximately \$6.6 million at June 30, 2014 and \$5.6 million at December 31, 2013.

30

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

The total recorded investment of all TDRs in which interest rates were modified below market was \$182.6 million at June 30, 2014 and \$172.6 million at December 31, 2013. These loans are included in the previous schedule 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		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Commercial:				
Commercial and industrial	\$(81 )	\$(17 )	\$244	\$(201 )
Owner occupied	(1,602 )	(1,046 )	(3,310 )	(2,097 )
Total commercial	(1,683 )	(1,063 )	(3,066 )	(2,298 )
Commercial real estate:				
Construction and land development	(606 )	(111 )	(1,272 )	(519 )
Term	(1,647 )	(2,585 )	(3,425 )	(5,150 )
Total commercial real estate	(2,253 )	(2,696 )	(4,697 )	(5,669 )
Consumer:				
Home equity credit line	(18 )	(34 )	(42 )	(73 )
1-4 family residential	(3,441 )	(3,758 )	(7,042 )	(7,613 )
Construction and other consumer real estate	(102 )	(108 )	(207 )	(217 )
Total consumer loans	(3,561 )	(3,900 )	(7,291 )	(7,903 )
Total decrease to interest income <sup>1</sup>	\$(7,497 )	\$(7,659 )	\$(15,054 )	\$(15,870 )

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

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

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

(In thousands)	Three Months Ended			Six Months Ended		
	June 30, 2014			June 30, 2014		
	Accruing	Nonaccruing	Total	Accruing	Nonaccruing	Total
Commercial:						
Commercial and industrial	\$—	\$284	\$284	\$—	\$284	\$284
Owner occupied	—	421	421	—	421	421
Total commercial	—	705	705	—	705	705
Commercial real estate:						
Construction and land development	—	—	—	—	—	—
Term	—	—	—	—	—	—
Total commercial real estate	—	—	—	—	—	—
Consumer:						
Home equity credit line	—	—	—	—	217	217
1-4 family residential	10	39	49	10	39	49
Construction and other consumer real estate	—	83	83	—	83	83
Total consumer loans	10	122	132	10	339	349
Total	\$10	\$827	\$837	\$10	\$1,044	\$1,054





Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
	Accruing	Nonaccruing	Total	Accruing	Nonaccruing	Total
Commercial:						
Commercial and industrial	\$—	\$—	\$—	\$—	\$3	\$3
Owner occupied	—	3,153	3,153	—	3,153	3,153
Total commercial	—	3,153	3,153	—	3,156	3,156
Commercial real estate:						
Construction and land development	—	—	—	—	—	—
Term	—	—	—	—	1,019	1,019
Total commercial real estate	—	—	—	—	1,019	1,019
Consumer:						
Home equity credit line	—	—	—	—	85	85
1-4 family residential	—	2,399	2,399	—	2,399	2,399
Construction and other consumer real estate	—	—	—	—	—	—
Total consumer loans	—	2,399	2,399	—	2,484	2,484
Total	\$—	\$5,552	\$5,552	\$—	\$6,659	\$6,659

Note: Total loans modified as TDRs during the 12 months previous to June 30, 2014 and 2013 were \$141.3 million and \$183.8 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. See Note 7 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. Upon acquisition, in accordance with applicable accounting guidance, the acquired loans were recorded at their fair value without a corresponding ALLL. 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. In general, the FDIC assumed 80% of credit losses up to a specified threshold and 95% above that threshold. The five-year agreements for commercial loans, which comprised the major portion of the covered portfolio, expire in 2014 through September 30. The ten-year agreements for single family residential loans, which are a small portion of the covered portfolio, will expire in 2019.

Due to their declining balances, the “FDIC-supported/PCI loans” are included with “Loans and leases” in the

32

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

Company's balance sheet. However, they continue to be shown separately in this footnote and in other disclosures, and include both PCI and certain other acquired loans.

## 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)	June 30, 2014	December 31, 2013
Commercial	\$124,943	\$150,191
Commercial real estate	142,432	233,720
Consumer	20,890	28,608
Outstanding balance	\$288,265	\$412,519
Carrying amount	\$213,682	\$311,797
ALLL	3,840	6,478
Carrying amount, net	\$209,842	\$305,319

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 not significant at June 30, 2014 and December 31, 2013.

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

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Balance at beginning of period	\$65,765	\$126,359	\$77,528	\$134,461
Accretion	(14,181)	(33,787)	(36,488)	(59,053)
Reclassification from nonaccretable difference	5,531	8,312	14,451	23,184
Disposals and other	3,719	3,599	5,343	5,891
Balance at end of period	\$60,834	\$104,483	\$60,834	\$104,483

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

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

agreements. These amounts recoverable were 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 and six months ended June 30, we adjusted the ALLL for acquired loans by recording a provision for loan losses of \$0.2 million and \$(2.5) million in 2014 and \$2.5 million and \$(7.1) million in 2013, 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 provision reductions result in a corresponding decrease of the FDIC IA. For the three and six months ended June 30, these adjustments resulted in net recoveries of \$0.5 million and \$1.7 million in 2014, and net charge-offs of \$0.3 million and net recoveries of \$0.6 million in 2013, respectively.

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

Changes in Cash Flow Estimates

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

For increases in carrying values that resulted from better-than-expected cash flows, we use such increases first to reverse any existing ALLL. During the three and six months ended June 30, total reversals to the ALLL were \$0.7 million and \$3.6 million in 2014 and \$1.1 million and \$10.9 million in 2013, respectively. When there is no current ALLL, we increase the amount of accretable yield on a prospective basis over the remaining life of the loan and recognize this increase in interest income. Any related decrease to the FDIC IA is recorded through a charge to other noninterest expense. Changes that increase cash flows have been due primarily to (1) the enhanced economic status of borrowers compared to original evaluations, (2) improvements in the Southern California market where the majority of these loans were originated, and (3) efforts by our credit officers and loan workout professionals to resolve problem loans.

For the three and six months ended June 30, the impact of increased cash flow estimates recognized in the statement of income for acquired loans with no ALLL was approximately \$11.7 million and \$30.2 million in 2014 and \$28.4 million and \$47.4 million in 2013, respectively, of additional interest income; and \$9.3 million and \$25.3 million in 2014 and \$21.8 million and \$42.1 million in 2013, respectively, of additional other noninterest expense due to the reduction of the FDIC IA.

FDIC Indemnification Asset

The balance of the FDIC IA was \$5.8 million at June 30, 2014 and \$26.4 million at December 31, 2013. In accordance with applicable accounting guidance, the balance will reduce to a de minimus level by September 30, 2014 when the final commercial loan loss sharing agreement expires.

7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We record all derivatives on the balance sheet at fair value. Note 10 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.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

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 loans.

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

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 June 30, 2014, the fair value of our derivative liabilities was \$56.6 million, for which we were required to pledge cash collateral of approximately \$44.3 million in the normal course of business. If our credit rating were downgraded one notch by either Standard & Poor's or Moody's at June 30, 2014, the additional amount of collateral we could be required to pledge is approximately \$1.6 million. Since July 2013, as required by the Dodd-Frank Act, all newly eligible derivatives entered into are cleared through a central clearinghouse. Derivatives that are centrally cleared do not have credit-risk-related features that require additional collateral if our credit rating were downgraded.

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



Selected information with respect to notional amounts and recorded gross fair values at June 30, 2014 and December 31, 2013, and the related gain (loss) of derivative instruments for the three and six months ended June 30, 2014 and 2013 is summarized as follows:

35

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	June 30, 2014			December 31, 2013		
	Notional amount	Fair value Other assets	Other liabilities	Notional amount	Fair value Other assets	Other liabilities
Derivatives designated as hedging instruments						
Asset derivatives						
Cash flow hedges:						
Interest rate swaps	\$200,000	\$1,280	\$63	\$100,000	\$202	\$583
Total derivatives designated as hedging instruments	200,000	1,280	63	100,000	202	583
Derivatives not designated as hedging instruments						
Interest rate swaps	15,890	—	153	65,850	420	421
Interest rate swaps for customers <sup>2</sup>	2,820,479	48,911	50,379	2,902,776	55,447	54,688
Foreign exchange	358,462	6,952	5,979	751,066	9,614	8,643
Total return swap	—	—	—	1,159,686	—	4,062
Total derivatives not designated as hedging instruments	3,194,831	55,863	56,511	4,879,378	65,481	67,814
Total derivatives	\$3,394,831	\$57,143	\$56,574	\$4,979,378	\$65,683	\$68,397

(In thousands)	Three Months Ended June 30, 2014				Six Months Ended June 30, 2014			
	Amount of derivative gain (loss) recognized/reclassified							
	OCI	Reclassified		Offset to interest expense	OCI	Reclassified		Offset to interest expense
		from AOCI to interest income <sup>3</sup>	Noninterest income (expense)			from AOCI to interest income <sup>3</sup>	Noninterest income (expense)	
Derivatives designated as hedging instruments								
Asset derivatives								
Cash flow hedges <sup>1</sup> :								
Interest rate swaps	\$1,988	\$577	\$—		\$2,526	\$928	\$—	
	1,988	577	—		2,526	928	—	
Liability derivatives								
Fair value hedges:								
Terminated swaps on long-term debt				\$608				\$1,326
Total derivatives designated as hedging instruments	1,988	577	—	608	2,526	928	—	1,326
Derivatives not designated as hedging instruments								
Interest rate swaps			348				354	
Interest rate swaps for customers <sup>2</sup>			(377)	)			(926)	)
Foreign exchange			1,998				3,709	
Total return swap			(467)	)			(7,894)	)

Total derivatives not designated as hedging instruments			1,502				(4,757 )	
Total derivatives	\$1,988	\$ 577	\$ 1,502	\$ 608	\$2,526	\$ 928	\$(4,757 )	\$1,326

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	Three Months Ended June 30, 2013				Six Months Ended June 30, 2013			
	Amount of derivative gain (loss) recognized/reclassified							
	OCI	Reclassified from AOCI to interest income <sup>3</sup>	Noninterest income (expense)	Offset to interest expense	OCI	Reclassified from AOCI to interest income <sup>3</sup>	Noninterest income (expense)	Offset to interest expense
Derivatives designated as hedging instruments								
Asset derivatives								
Cash flow hedges <sup>1</sup> :								
Interest rate swaps	\$(2 )	\$ 777	\$ —		\$(6 )	\$ 2,382	\$ —	
	(2 )	777	—		(6 )	2,382	—	
Liability derivatives								
Fair value hedges:								
Terminated swaps on long-term debt				\$ 780				\$ 1,546
Total derivatives designated as hedging instruments	(2 )	777	—	780	(6 )	2,382	—	1,546
Derivatives not designated as hedging instruments								
Interest rate swaps			(20 )				(87 )	
Interest rate swaps for customers <sup>2</sup>			4,290				5,748	
Futures contracts			(1 )				—	
Foreign exchange			2,100				4,854	
Total return swap			(5,450 )				(11,008 )	
Total derivatives not designated as hedging instruments			919				(493 )	
Total derivatives	\$(2 )	\$ 777	\$ 919	\$ 780	\$(6 )	\$ 2,382	\$(493 )	\$ 1,546

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

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

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

<sup>3</sup> Amounts for the three and six months ended June 30, of \$0.6 million and \$0.9 million in 2014, and \$0.8 million and \$2.4 million in 2013, respectively, are the amounts of reclassification to earnings from AOCI presented in Note 8.

At June 30, the fair values of derivative assets and liabilities were reduced by net credit valuation adjustments of \$1.9 million and \$0.5 million in 2014, and \$2.8 million and \$2.2 million in 2013, 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 changing interest rates. Upon issuance, all of these customer swaps are immediately "hedged" by offsetting derivative contracts, such that the Company minimizes its net risk exposure resulting from such transactions. Fee income from customer swaps is

included in other service charges, commissions and fees. As with other derivative instruments, we have credit risk for any nonperformance by counterparties.

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 June 30, 2014, we estimate that an additional \$2.7 million will be reclassified.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## Total Return Swap

Effective April 28, 2014, we canceled the total return swap and related interest rate swaps (“TRS”) relating to a portfolio of \$1.16 billion notional amount of our bank and insurance trust preferred CDOs. Prior to cancellation of the TRS, the actual portfolio par balance had been reduced to \$545 million due to sales, paydowns and payoffs. As a result of the cancellation, the TRS derivative liability was extinguished at June 30, 2014, and the Company’s regulatory risk weighted assets increased by approximately \$0.9 billion at June 30, 2014.

## 8. DEBT AND SHAREHOLDERS’ EQUITY

## Debt Redemptions

During the three and six months ended June 30, 2014, we redeemed \$130 million and \$255 million of long-term senior notes. For balances at June 30, 2014, during the remainder of 2014, long-term senior notes of \$240.6 million mature in September 2014 and long-term senior notes of \$44.3 million have optional early redemptions of \$17.4 million in August 2014 and \$26.9 million in November 2014. We have provided a notice of call for the notes in August 2014.

On May 15, 2014, we redeemed at maturity the entire 5.65% subordinated notes (\$30.2 million par amount) and 5.65% convertible subordinated notes (\$75.7 million par amount). For the remainder of 2014, subordinated debt of \$75 million at June 30, 2014 matures in September 2014.

## Accumulated Other Comprehensive Income

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
<b>Six Months Ended June 30, 2014</b>				
Balance at December 31, 2013	\$(167,032 )	\$(217 )	\$ (24,852 )	\$(192,101 )
Other comprehensive income before reclassifications, net of tax	81,671	1,519	—	83,190
Amounts reclassified from AOCI, net of tax	(27,368 )	(558 )	—	(27,926 )
Other comprehensive income	54,303	961	—	55,264
Balance at June 30, 2014	\$(112,729 )	\$744	\$ (24,852 )	\$(136,837 )
Income tax expense included in other comprehensive income	\$43,595	\$638	\$ —	\$44,233
<b>Six Months Ended June 30, 2013</b>				
Balance at December 31, 2012	\$(397,616 )	\$1,794	\$ (50,335 )	\$(446,157 )
Other comprehensive income (loss) before reclassifications, net of tax	65,212	(3 )	—	65,209
Amounts reclassified from AOCI, net of tax	7,818	(1,426 )	—	6,392
Other comprehensive income (loss)	73,030	(1,429 )	—	71,601
Balance at June 30, 2013	\$(324,586 )	\$365	\$ (50,335 )	\$(374,556 )

Income tax expense (benefit) included in other comprehensive income (loss)	\$43,986	\$(959 )	\$ —	\$43,027
--	----------	----------	------	----------

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	Amounts reclassified from AOCI <sup>1</sup>				Statement of income (SI) Balance sheet (BS)	Affected line item
	Three Months Ended June 30,		Six Months Ended June 30,			
Details about AOCI components	2014	2013	2014	2013		
Net realized gains (losses) on investment securities	\$5,026	\$(1,153 )	\$35,940	\$2,146	SI	Fixed income securities gains (losses), net
Income tax expense	1,922	(441 )	7,996	821		
	3,104	(712 )	27,944	1,325		
Net unrealized losses on investment securities	—	(4,217 )	(27 )	(13,932 )	SI	Net impairment losses on investment securities
Income tax benefit	—	(1,668 )	(10 )	(5,384 )		
	—	(2,549 )	(17 )	(8,548 )		
Accretion of securities with noncredit-related impairment losses not expected to be sold	(462 )	(637 )	(944 )	(981 )	BS	Investment securities, held-to-maturity
Deferred income taxes	189	251	385	386	BS	Other assets
	\$2,831	\$(3,647 )	\$27,368	\$(7,818 )		
Net unrealized gains on derivative instruments	\$577	\$777	\$928	\$2,382	SI	Interest and fees on loans
Income tax expense	229	308	370	956		
	\$348	\$469	\$558	\$1,426		

<sup>1</sup> 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.

**Basel III Capital Framework**

The Federal Reserve has published final rules establishing a new capital framework for U.S. banking organizations. These new rules implement the Basel Committee's December 2010 framework, commonly referred to as Basel III, which will become effective for the Company on January 1, 2015, with the fully phased-in requirements becoming effective in 2018.

Among other things, the new rules revise capital adequacy guidelines and the regulatory framework for prompt corrective action, and they modify specified quantitative measures of our assets, liabilities, and capital. The impact of these new rules will require the Company to maintain capital in excess of current "well-capitalized" regulatory standards, and in excess of historical levels.

**Subsequent Event**

On July 25, 2014, the Federal Reserve announced that it has not objected to the Company's 2014 resubmitted Capital Plan. The post-stress Tier 1 common ratio was computed under the resubmitted plan at 5.1%, which exceeded the minimum 5.0% requirement. Our original 2014 Capital Plan did not meet this minimum requirement. The Company's resubmitted Capital Plan included the issuance of \$400 million of new common equity in the third quarter of 2014. However, we determined to increase this amount, and on July 28, 2014, we issued \$525 million of common stock, which consisted of approximately 17.6 million shares at a price of \$29.80 per share. Net of commissions and fees, this



issuance added approximately \$516 million to common stock in the third quarter of 2014. In addition, we granted the underwriters a 30-day option to purchase up to an additional 15% of the amount of common stock offered, or approximately \$78.7 million of common stock. As of the date of this filing, the underwriters had not exercised this option.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

9. INCOME TAXES

The income tax expense rate for the three and six months ended June 30, 2014 and 2013 was lower than the blended statutory rate of 38.25% primarily because of the non-taxability of certain income items. However, the effective tax rate for the three and six months ended June 30, 2014 was higher than the comparable periods in 2013 primarily because of a slight decrease in the amount of nontaxable items relative to pretax income, and an accrual of \$2.3 million of interest expense included in income tax expense to settle certain income tax examinations.

Net deferred tax assets were approximately \$239 million at June 30, 2014 and \$304 million at December 31, 2013.

We evaluate net deferred tax assets on a regular basis to determine whether an additional valuation allowance is required. Based on this evaluation, and considering the weight of the positive evidence compared to the negative evidence, we have concluded that an additional valuation allowance is not required as of June 30, 2014.

10. 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 in active markets that the Company has the ability to access;

Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in less active markets, observable inputs other than quoted prices that are used in the valuation of an asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means; and

Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined by 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.

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measure in its entirety. Market activity is presumed to be orderly in the absence of evidence of forced or disorderly sales, although such sales may still be indicative of fair value.

Applicable accounting guidance precludes the use of blockage factors or liquidity adjustments due to the quantity of securities held by an entity.

We use fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure for accounting. Fair value is used on a nonrecurring basis to measure certain assets when adjusting carrying values, such as the application of lower of cost or fair value accounting, including recognition of impairment on assets. Fair value is also used when providing required disclosures for certain financial instruments.

Fair Value Policies and Procedures

We have various policies, processes and controls in place to ensure that fair values are reasonably developed, reviewed and approved for use. These include a Securities Valuation and Securitization Oversight Committee (“SOC”) comprised of executive management appointed by the Board of Directors. The SOC reviews and approves on a quarterly basis the key components of fair value estimation, including critical valuation assumptions for Level 3 modeling. Attribution analyses are completed when significant changes occur between quarters. The SOC also requires quarterly back testing of certain significant assumptions. A Model Risk Management Group conducts model validations, including the internal model, and sets policies and procedures for revalidation, including the timing of revalidation.



Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

Third Party Service Providers

We use a third party pricing service to provide pricing for approximately 88% of our AFS Level 2 securities, and an internal model to estimate fair value for approximately 98% of our AFS Level 3 securities. Fair values for the remaining AFS Level 2 and Level 3 securities generally use standard form discounted cash flow modeling with certain inputs corroborated by market data.

For Level 2 securities, the third party pricing service provides documentation on an ongoing basis that presents market corroborative data, including detail pricing information and market reference data. The documentation includes benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data, including information from the vendor trading platform. We review, test and validate this information as appropriate.

For Level 3 securities, we review and evaluate on a quarterly basis the relevant third party modeling assumptions. These include PDs, loss given default rates, over-collateralization levels, and rating transition probability matrices from ratings agencies. In addition, we also compare the results and valuation with our information about market trends and trading data. This includes information regarding trading prices, implied discounts, outlier information, valuation assumptions, etc.

Absent observable trade data, we do not adjust prices from our third party sources. The procedures described help ensure that resulting fair value estimates were determined in accordance with applicable accounting guidance. The following describes the hierarchy designations, valuation methodologies, and key inputs to measure fair value on a recurring basis for designated financial instruments:

Available-for-Sale and Trading

U.S. Treasury, Agencies and Corporations

U.S. Treasury securities are measured under Level 1 using quoted market prices. U.S. agencies and corporations are measured under Level 2 generally using the previously-discussed third party pricing service.

Municipal Securities

Municipal securities are measured under Level 2 using the third party pricing service, or under Level 3 using a discounted cash flow approach. Valuation inputs include BBB and Baa municipal curves, as well as FHLB and London Interbank Offered Rate (“LIBOR”) swap curves. Additional valuation inputs include internal credit scoring, and security- and client-type groupings.

Asset-Backed Securities: Trust Preferred Collateralized Debt Obligations

The majority of the CDO portfolio is measured under Level 3 primarily with the internal model using an income-based cash flow modeling approach incorporating several methodologies. The Company inputs its own key valuation assumptions:

Trust preferred – banks and insurance – We primarily use an internal model for our bank and insurance CDO securities. Our “ratio-based approach” utilizes a statistical regression of regulatory ratios we have identified as predictive of future bank failures and bank holding company defaults to create a credit-specific PD for each bank issuer. The approach generally references trailing quarter regulatory data, financial ratios and macroeconomic factors.

The PDs used depend on whether the collateral is performing or deferring. Deferring PDs increase, all else being equal, as the deferral ages and approaches the end of its allowable five-year deferral period. The internal 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 loss for the individual pieces of underlying collateral are aggregated to arrive at a pool-level 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.



Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

We utilize a present value technique to identify both the OTTI present in the CDO tranches and to estimate fair value. To estimate fair value, we discount the credit-adjusted cash flows of each CDO tranche at a tranche-specific discount rate derived from trading data and a measure of the credit risk in the CDO tranche. Because these securities are not traded on exchanges and trading prices are not posted on the TRACE<sup>®</sup> system (Trade Reporting and Compliance Engine<sup>®</sup>), we seek information from market participants to obtain trade price information.

Trading data is generally limited and may include trades of tranches within our same CDO. We use this limited trade data along with our modeled expected credit adjusted cash flows to determine a relationship between the market required yield and the downside variability of the returns of each CDO security. The loss/downside variability for this purpose is a measure of the downside variability of cash flows from the mean estimate of cash flow.

During the three months ended March 31, 2014, two insurance CDO securities and two single-name bank trust preferred securities, were transferred from Level 3 to Level 2 primarily due to the increasing ability to utilize fair value inputs corroborated by observed market data. The securities remain at Level 2 at June 30, 2014 as shown in the Level 3 reconciliation schedules following. The securities constitute the Company's entire holding of each asset class.

Trust preferred – REITS, Other – During the three months ended March 31, 2014, substantially all of these securities were sold, as discussed in Note 5.

**Auction Rate Securities**

Auction rate securities are measured under Level 3 primarily using valuation inputs that include AAA corporate bond yield curves, municipal yield curves, credit ratings and leverage of each closed-end fund, market yields for commercial paper, and any observable trade commentaries.

**Bank-Owned Life Insurance**

Bank-owned life insurance is measured under Level 2 according to cash surrender values (“CSVs”) of the insurance contracts that are provided by a third party service. Nearly all CSVs are computed based on valuations and earnings of the underlying assets in the insurance companies' general accounts. The underlying investments include predominantly fixed income securities consisting of investment grade corporate bonds and various types of mortgage instruments. Average duration ranges from five to eight years. Management regularly reviews investment performance, including concentrations of investments and regulatory restrictions.

**Private Equity Investments**

Private equity investments are measured under Level 2 or Level 3. The Other Equity Investments Committee, consisting of executives familiar with the investments, reviews periodic financial information, including audited financial statements when available. The amount of unfunded commitments is disclosed in Note 11. Certain restrictions apply for the redemption of these investments. Approximately \$56 million of private equity investments at June 30, 2014 are prohibited by the Volcker Rule.

Private equity investments under Level 2 include 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 are measured under Level 3 primarily using current and projected financial performance, recent financing activities, economic and market conditions, market comparables, market liquidity, sales restrictions, and other factors.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

Agriculture Loan Servicing

This asset results from our servicing of agriculture loans approved by the Federal Agricultural Mortgage Corporation (“FAMC,” or “Farmer Mac”) and funded by them. We provide this servicing under an agreement with Farmer Mac for loans they own. The asset’s fair value represents our projection of the present value of future cash flows measured under Level 3 using discounted cash flow methodologies.

Interest-Only Strips

Interest-only strips are created as a by-product of the securitization process. When the guaranteed portions of Small Business Administration (“SBA”) 7(a) loans are pooled, interest-only strips may be created in the pooling process. The asset’s fair value represents our projection of the present value of future cash flows measured under Level 3 using discounted cash flow methodologies.

Deferred Compensation Plan Assets and Obligations

Invested assets in the deferred compensation plan consists of shares of registered investment companies. These mutual funds are valued under Level 1 at quoted market prices, which represents the net asset value of shares held by the plan at the end of the period.

Derivatives

Derivatives are measured according to their classification as either exchange-traded or over-the-counter (“OTC”). Exchange-traded derivatives consist of forward currency exchange contracts measured 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 measured under Level 2 using third party services. Observable market inputs include yield curves (the LIBOR swap curve and relevant overnight index swap curves), foreign exchange rates, commodity prices, option volatilities, counterparty credit risk, and other related data. Credit valuation adjustments are required to reflect nonperformance risk for both the Company and the respective counterparty. These adjustments are determined generally by applying a credit spread to the total expected exposure of the derivative.

Securities Sold, Not Yet Purchased

Securities sold, not yet purchased, are measured under Level 1 using quoted market prices. If not available, quoted prices under Level 2 for similar securities are used.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## Quantitative Disclosure of Fair Value Measurements

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

(In thousands)	June 30, 2014			Total
	Level 1	Level 2	Level 3	
<b>ASSETS</b>				
Investment securities:				
Available-for-sale:				
U.S. Treasury, agencies and corporations	\$—	\$2,330,185		\$2,330,185
Municipal securities		178,371	\$10,038	188,409
Asset-backed securities:				
Trust preferred – banks and insurance		64,347	685,805	750,152
Trust preferred – real estate investment trusts			—	—
Auction rate			6,578	6,578
Other		1,315	28	1,343
Mutual funds and stock	175,617	10,525		186,142
	175,617	2,584,743	702,449	3,462,809
Trading account		56,572		56,572
Other noninterest-bearing investments:				
Bank-owned life insurance		472,740		472,740
Private equity		5,036	82,256	87,292
Other assets:				
Agriculture loan servicing and interest-only strips			11,461	11,461
Deferred compensation plan assets	90,490			90,490
Derivatives:				
Interest rate related and other		1,280		1,280
Interest rate swaps for customers		48,911		48,911
Foreign currency exchange contracts	6,952			6,952
	6,952	50,191		57,143
	\$273,059	\$3,169,282	\$796,166	\$4,238,507
<b>LIABILITIES</b>				
Securities sold, not yet purchased	\$10,590			\$10,590
Other liabilities:				
Deferred compensation plan obligations	90,490			90,490
Derivatives:				
Interest rate related and other		\$216		216
Interest rate swaps for customers		50,379		50,379
Foreign currency exchange contracts	5,979			5,979
Total return swap			\$—	—
	5,979	50,595	—	56,574
Other			132	132
	\$107,059	\$50,595	\$132	\$157,786



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	December 31, 2013			Total
	Level 1	Level 2	Level 3	
<b>ASSETS</b>				
Investment securities:				
Available-for-sale:				
U.S. Treasury, agencies and corporations	\$—	\$2,059,105		\$2,059,105
Municipal securities		55,602	\$10,662	66,264
Asset-backed securities:				
Trust preferred – banks and insurance		—	1,238,820	1,238,820
Trust preferred – real estate investment trusts			22,996	22,996
Auction rate			6,599	6,599
Other		2,099	25,800	27,899
Mutual funds and stock	259,750	20,453		280,203
	259,750	2,137,259	1,304,877	3,701,886
Trading account		34,559		34,559
Other noninterest-bearing investments:				
Bank-owned life insurance		466,428		466,428
Private equity		4,822	82,410	87,232
Other assets:				
Agriculture loan servicing and interest-only strips			8,852	8,852
Deferred compensation plan assets	86,184			86,184
Derivatives:				
Interest rate related and other		1,100		1,100
Interest rate swaps for customers		55,447		55,447
Foreign currency exchange contracts	9,614			9,614
	9,614	56,547		66,161
	\$355,548	\$2,699,615	\$1,396,139	\$4,451,302
<b>LIABILITIES</b>				
Securities sold, not yet purchased	\$73,606			\$73,606
Other liabilities:				
Deferred compensation plan obligations	86,184			86,184
Derivatives:				
Interest rate related and other		\$1,004		1,004
Interest rate swaps for customers		54,688		54,688
Foreign currency exchange contracts	8,643			8,643
Total return swap			\$4,062	4,062
	8,643	55,692	4,062	68,397
Other			241	241
	\$168,433	\$55,692	\$4,303	\$228,428

The fair value of the Level 3 bank and insurance CDO portfolio would generally be adversely affected by significant increases in the constant default rate (“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.

Reconciliation of Level 3 Fair Value Measurements

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

45

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	Level 3 Instruments Three Months Ended June 30, 2014							
	Municipal securities	Trust preferred – banks and insurance	Trust preferred – REIT	Auction rate	Other asset-backed	Private equity investments	Ag loan svcg and int-only strips	Derivatives and other liabilities
Balance at March 31, 2014	\$10,184	\$690,217	\$—	\$6,560	\$ 30	\$ 81,052	\$11,207	\$(5,632 )
Net gains (losses) included in:								
Statement of income:								
Accretion of purchase discount on securities available-for-sale	8	633		1				
Dividends and other investment income (loss)						(1,052 )		
Fair value and nonhedge derivative loss								(467 )
Equity securities gains, net						584		
Fixed income securities gains, net	—	4,383	—	—	—			
Other noninterest income							45	
Other noninterest expense								101
Other comprehensive income	92	6,878		17	—			
Purchases						7,104	379	
Sales						(15 )		
Redemptions and paydowns	(246 )	(16,306 )			(2 )	(5,417 )	(170 )	5,866
Transfers to Level 2		—						
Balance at June 30, 2014	\$10,038	\$685,805	\$—	\$6,578	\$ 28	\$ 82,256	\$11,461	\$(132 )

(In thousands)	Level 3 Instruments Six Months Ended June 30, 2014							
	Municipal securities	Trust preferred – banks and insurance	Trust preferred – REIT	Auction rate	Other asset-backed	Private equity investments	Ag loan svcg and int-only strips	Derivatives and other liabilities
Balance at December 31, 2013	\$10,662	\$1,238,820	\$22,996	\$6,599	\$ 25,800	\$ 82,410	\$8,852	\$(4,303 )
Net gains (losses) included in:								
Statement of income:								
Accretion of purchase discount on securities available-for-sale	18	1,353		2				

Dividends and other investment income (loss)					(2,747 )			
Fair value and nonhedge derivative loss							(7,894 )	
Equity securities gains, net					584			
Fixed income securities gains, net	16	22,965	1,399		10,917			
Other noninterest income							526	
Other noninterest expense								109
Other comprehensive income (loss)	(182 )	101,340	—	(23 )	(15 )			
Purchases						8,460	2,456	
Sales		(546,388 )			(36,669 )	(839 )		
Redemptions and paydowns	(476 )	(63,092 )	(24,395 )	(5 )	(5,612 )	(373 )	11,956	
Transfers to Level 2		(69,193 )						
Balance at June 30, 2014	\$ 10,038	\$ 685,805	\$ —	\$ 6,578	\$ 28	\$ 82,256	\$ 11,461	\$ (132 )

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	Level 3 Instruments Three Months Ended June 30, 2013							
	Municipal securities	Trust preferred – banks and insurance	Trust preferred REIT	Auction rate	Other asset-backed	Private equity investments	Ag loan svcg and int-only strips	Derivatives and other liabilities
Balance at March 31, 2013	\$ 17,043	\$ 1,003,102	\$ 17,306	\$ 6,524	\$ 15,393	\$ 69,706	\$ 8,252	\$(5,070 )
Net gains (losses) included in:								
Statement of income:								
Accretion of purchase discount on securities available-for-sale	—	797	63	—	9			
Dividends and other investment income						2,160		
Fair value and nonhedge derivative loss								(5,450 )
Equity securities gains, net						1,340		
Fixed income securities gains (losses), net	15	(1,190 )			14			
Net impairment losses on investment securities		(4,047 )	(170 )					
Other noninterest income							384	
Other noninterest expense								(94 )
Other comprehensive income	197	52,312	1,300	30	1,972			
Purchases						2,882		
Sales		(7,015 )				(387 )		
Redemptions and paydowns	(3,711 )	(13,666 )			(64 )	(184 )	(298 )	5,496
Balance at June 30, 2013	\$ 13,544	\$ 1,030,293	\$ 18,499	\$ 6,554	\$ 17,324	\$ 75,517	\$ 8,338	\$(5,118 )

(In thousands)	Level 3 Instruments Six Months Ended June 30, 2013							
	Municipal securities	Trust preferred – banks and insurance	Trust preferred REIT	Auction rate	Other asset-backed	Private equity investments	Ag loan svcg and int-only strips	Derivatives and other liabilities
Balance at December 31, 2012	\$ 16,551	\$ 949,271	\$ 16,403	\$ 6,515	\$ 15,160	\$ 64,223	\$ 8,334	\$(5,251 )
Net gains (losses) included in:								
Statement of income:								

Accretion of purchase discount on securities available-for-sale	21	1,612	126	1	14			
Dividends and other investment income						5,149		
Fair value and nonhedge derivative loss								(11,008 )
Equity securities gains, net						3,739		
Fixed income securities gains, net	36	2,036		—	44			
Net impairment losses on investment securities		(13,761 )	(170 )					
Other noninterest income							503	
Other noninterest expense								(165 )
Other comprehensive income	922	130,962	2,140	38	4,623			
Purchases						3,841		
Sales		(7,015 )				(1,120 )		
Redemptions and paydowns	(3,986 )	(32,812 )		—	(2,517 )	(315 )	(499 )	11,306
Balance at June 30, 2013	\$ 13,544	\$ 1,030,293	\$ 18,499	\$ 6,554	\$ 17,324	\$ 75,517	\$ 8,338	\$ (5,118 )

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

The preceding reconciling amounts using Level 3 inputs include the following realized amounts:

(In thousands)	Three Months Ended		Six Months Ended June	
	June 30, 2014	2013	30, 2014	2013
Dividends and other investment income (loss)	\$—	\$(60 )	\$34	\$(45 )
Fixed income securities gains (losses), net	4,383	(1,161 )	35,297	2,116

Except as previously discussed, no other transfers of assets or liabilities occurred among Levels 1, 2 or 3 for the three and six months ended June 30, 2014 and 2013. Transfers are considered to have occurred as of the end of the reporting period.

Following is a summary of quantitative information relating to the principal valuation techniques and significant unobservable inputs for Level 3 instruments measured on a recurring and nonrecurring basis:

(Dollar amounts in thousands)	Level 3 Instruments			
	Fair value	Principal valuation techniques	Significant unobservable inputs	Range of inputs (% annually)
Asset-backed securities:				
Trust preferred – predominantly banks	\$740,261	Discounted cash flow Market comparables	Constant prepayment rate  Constant default rate  Loss given default Loss given deferral Discount rate (spread over forward LIBOR)	until 2016 – 5.5% to 26.19%  2016 to maturity – 3.0% yr 1 – 0.3% to 2.75% yrs 2-5 – 0.48% to 0.87% yrs 6 to maturity – 0.59% to 0.65% 100% 8.17% to 100% 5.1% to 5.7%

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(Dollar amounts in thousands)	Level 3 Instruments			Range of inputs (% annually)
	Quantitative information at December 31, 2013	Principal valuation techniques	Significant unobservable inputs	
Asset-backed securities:				
Trust preferred – predominantly banks	\$921,819	Discounted cash flow Market comparables	Constant prepayment rate  Constant default rate  Loss given default Loss given deferral Discount rate (spread over forward LIBOR)	until 2016 – 5.50% to 20.73%  2016 to maturity – 3.0% yr 1 – 0.30% to 1.94% yrs 2-5 – 0.49% to 1.14% yrs 6 to maturity – 0.58% to 0.65% 100% 14.39% to 100% 5.6% to 7.7%
Trust preferred – predominantly insurance	346,390	Discounted cash flow Market comparables	Constant prepayment rate  Constant default rate  Loss given default Loss given deferral Discount rate (spread over forward LIBOR)	until maturity – 5.0%  yr 1 – 0.38% to 1.03% yrs 2-5 – 0.53% to 0.89% yrs 6 to maturity – 0.50% to 0.55% 100% 2.18% to 30.13% 3.72% to 6.49%
Trust preferred – individual banks	22,324	Market comparables	Yield Price	6.6% to 7.8% 81.25% to 109.6%
Trust preferred – real estate investment trust	22,996	Discounted cash flow Market comparables	Constant prepayment rate  Constant default rate  Loss given default	until maturity – 0.0%  yr 1 – 4.1% to 10.6% yrs 2-3 – 4.6% to 5.5% yrs 4-6 – 1.0% yrs 7 to maturity – 0.50% 60% to 100%



			Discount rate (spread over forward LIBOR)	5.5% to 15%
Other (predominantly ABS CDOs)	25,800	Discounted cash flow	Constant default rate	0.01% to 100%
			Loss given default	70% to 92%
			Discount rate (spread over forward LIBOR)	9% to 22%

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## Nonrecurring Fair Value Measurements

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

(In thousands)	Fair value at June 30, 2014				Fair value at December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>ASSETS</b>								
HTM securities adjusted for OTTI	\$—	\$—	\$—	\$—	\$—	\$—	\$8,483	\$8,483
Private equity investments, carried at cost	—	—	547	547	—	—	13,270	13,270
Impaired loans	—	15,610	—	15,610	—	11,765	—	11,765
Other real estate owned	—	10,597	—	10,597	—	24,684	—	24,684
	\$—	\$26,207	\$547	\$26,754	\$—	\$36,449	\$21,753	\$58,202

The previous fair values may not be current as of the dates indicated, but rather as of the date the fair value change occurred, such as a charge for impairment. Accordingly, carrying values may not equal current fair value.

(In thousands)	Gains (losses) from fair value changes			
	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
<b>ASSETS</b>				
HTM securities adjusted for OTTI	\$—	\$—	\$(27)	\$(403)
Private equity investments, carried at cost	(133)	(609)	(133)	(1,429)
Impaired loans	(104)	(832)	(2,282)	(1,566)
Other real estate owned	(937)	(2,156)	(3,171)	(6,468)
	\$(1,174)	\$(3,597)	\$(5,613)	\$(9,866)

During the three and six months ended June 30, we recognized net gains of \$1.5 million and \$2.5 million in 2014, and \$2.1 million and \$6.3 million in 2013 from the sale of other real estate owned (“OREO”) properties that had a carrying value at the time of sale of approximately \$24.6 million and \$38.7 million during the six months ended June 30, 2014 and 2013, respectively. Previous to their sale in these periods, we recognized impairment on these properties of \$0.3 million and \$0.5 million in 2014, and \$0.3 million and \$0.4 million in 2013.

HTM securities adjusted for OTTI were measured at fair value using the same methodology for trust preferred CDO securities.

Private equity investments carried at cost were measured at fair value for impairment purposes according to the methodology previously discussed for these investments. Amounts of private equity investments carried at cost were \$48.5 million at June 30, 2014 and \$53.6 million at December 31, 2013. Amounts of other noninterest-bearing investments carried at cost were \$246.5 million at June 30, 2014 and \$248.4 million at December 31, 2013, which were comprised of Federal Reserve, Federal Home Loan Bank, and Farmer Mac stock.

Impaired (or nonperforming) loans that are collateral-dependent were measured at fair value based on the fair value of the collateral. OREO was measured at fair value at the lower of cost or fair value based on property appraisals at the time the property is recorded in OREO and as appropriate thereafter.

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

50

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

## Fair Value of Certain Financial Instruments

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

(In thousands)	June 30, 2014			December 31, 2013		
	Carrying value	Estimated fair value	Level	Carrying value	Estimated fair value	Level
Financial assets:						
HTM investment securities	\$615,104	\$643,926	3	\$588,981	\$609,547	3
Loans and leases (including loans held for sale), net of allowance	39,118,830	38,777,966	3	38,468,402	38,088,242	3
Financial liabilities:						
Time deposits	2,500,303	2,507,425	2	2,593,038	2,602,955	2
Foreign deposits	252,207	252,323	2	1,980,161	1,979,805	2
Long-term debt (less fair value hedges)	1,930,649	2,072,925	2	2,269,762	2,423,643	2

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

HTM investment securities primarily consist of municipal securities and bank and insurance trust preferred CDOs. They were measured at fair value according to the methodologies previously discussed for these investment types.

Loans are measured at fair value according to their status as nonimpaired or impaired. For nonimpaired loans, fair value is estimated by discounting future cash flows using the LIBOR yield curve adjusted by a factor which reflects the credit and interest rate risk inherent in the loan. These future cash flows are then reduced by the estimated "life-of-the-loan" aggregate credit losses in the loan portfolio. These adjustments for lifetime future credit losses are derived from the methods used to estimate the ALLL for our loan portfolio and are adjusted quarterly as necessary to reflect the most recent loss experience. Impaired loans are already considered to be held at fair value, except those whose fair value is determined by discounting cash flows, as discussed previously. See Impaired Loans in Note 6 for details on the impairment measurement method for impaired loans. Loans, other than those held for sale, are not normally purchased and sold by the Company, and there are no active trading markets for most of this portfolio.

Time and foreign deposits, and any other short-term borrowings, are measured at fair value by discounting future cash flows using the LIBOR yield curve to the given maturity dates.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

Long-term debt is measured at fair value based on actual market trades (i.e., an asset value) when available, or discounting cash flows to maturity using the LIBOR yield curve adjusted for credit spreads.

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

## 11. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

## Commitments and Guarantees

Contractual amounts of off-balance sheet financial instruments used to meet the financing needs of our customers are as follows:

(In thousands)	June 30, 2014	December 31, 2013
Unfunded commitments to extend credit	\$16,566,311	\$16,174,326
Standby letters of credit:		
Financial	762,836	779,811
Performance	168,238	159,485
Commercial letters of credit	28,294	80,218
Total unfunded lending commitments	\$17,525,679	\$17,193,840

The Company's 2013 Annual Report on Form 10-K contains further information about these commitments and guarantees including their terms and collateral requirements. At June 30, 2014, the Company had recorded approximately \$11.7 million as a liability for the guarantees associated with the standby letters of credit, which consisted of \$9.2 million attributable to the RULC and \$2.5 million of deferred commitment fees.

At June 30, 2014, the Parent has guaranteed \$15.0 million of debt of affiliated trusts issuing trust preferred securities.

At June 30, 2014, we had unfunded commitments for private equity and other noninterest-bearing investments of \$24.4 million. These obligations have no stated maturity. However, at June 30, 2014, substantially all of the private equity investments related to these commitments were prohibited by the Volcker Rule. We are currently taking steps to sell these prohibited investments by the required deadline of July 21, 2015, and do not expect that such sales will have a material effect on the Company's financial statements. See further discussions in Notes 5 and 10.

## Legal Matters

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

a complaint relating to our banking relationships with customers that allegedly engaged in wrongful telemarketing practices in which the plaintiff seeks a trebled monetary award under the federal RICO Act, *Reyes v. Zions First National Bank, et. al.*, brought in the United States District Court for the Eastern District of Pennsylvania; and



Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

a complaint arising from our banking relationships with Frederick Berg and a number of investment funds controlled by him using the “Meridian” brand name, in which the liquidating trustee for the funds seeks an award from us, on the basis of aiding and abetting and other claims, for monetary damages suffered by victims of a fraud allegedly perpetrated by Berg, In re Consolidated Meridian Funds a/k/a Meridian Investors Trust, Mark Calvert as Liquidating Trustee, et. al. vs. Zions Bancorporation and The Commerce Bank of Washington, N.A., pending in the United States Bankruptcy Court for the Western District of Washington.

In the third quarter of 2013, the District Court denied the plaintiff’s motion for class certification in the Reyes case. In the first quarter of 2014, the Third Circuit Court of Appeals approved the plaintiff’s motion to appeal the District Court decision.

Discovery has been completed in the Reyes case and is in process in the Meridian Funds case.

At any given time, proceedings, investigations, examinations and other actions brought or considered by governmental and self-regulatory agencies may relate to our banking, investment advisory, trust, securities, and other products and services; our customers’ involvement in money-laundering, fraud, securities violations and other illicit activities or our policies and practices relating to such customer activities; and our compliance with the broad range of banking, securities and other laws and regulations applicable to us. At any given time, we may be in the process of responding to subpoenas, requests for documents, data and testimony relating to such matters and engaging in discussions to resolve the matters. Significant investigations and similar inquiries to which we are currently subject relate to: possible money laundering activities of a customer of one of our subsidiary banks and the anti-money laundering practices of that bank (conducted by the United States Attorney’s Office for the Southern District of New York); and the practices of our subsidiary, Zions Bank; our former subsidiary, NetDeposit, LLC; and possibly other of our affiliates relating primarily to payment processing for allegedly fraudulent telemarketers and other customer types (conducted by the Department of Justice).

These two matters appear to be ongoing.

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

In our review, we also assess whether we can determine the range of reasonably possible losses for significant matters in which we are unable to determine that the likelihood of a loss is remote. Because of the difficulty of predicting the outcome of legal matters, discussed subsequently, we are able to meaningfully estimate such a range only for a limited number of matters. We currently estimate the aggregate range of reasonably possible losses for those matters to be from \$0 million to roughly \$50 million in excess of amounts accrued. This estimated range of reasonably possible losses is based on information currently available as of June 30, 2014. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from this estimate. Those matters for which an estimate is not possible are not included within this estimated range and, therefore, this estimated range does not represent our maximum loss exposure.

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





Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

these matters, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to our financial condition, results of operations, or cash flows for any given reporting period.

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

## 12. RETIREMENT PLANS

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

(In thousands)	Pension benefits		Supplemental retirement benefits		Postretirement benefits		Pension benefits		Supplemental retirement benefits		Postretirement benefits	
	Three Months Ended June 30,		Three Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Service cost	\$—	\$—	\$—	\$—	\$8	\$8	\$—	\$—	\$—	\$—	\$16	\$16
Interest cost	1,880	1,739	113	101	12	10	3,760	3,478	227	202	23	20
Expected return on plan assets	(3,326)	(3,027)					(6,652)	(6,055)				
Amortization of prior service cost (credit)			13	31	—	(37)			25	62	—	(75)
Amortization of net actuarial (gain) loss	797	2,157	5	17	(18)	(19)	1,593	4,315	10	35	(35)	(38)
Net periodic benefit cost (credit)	\$(649)	\$869	\$131	\$149	\$2	\$(38)	\$(1,299)	\$1,738	\$262	\$299	\$4	\$(77)

As disclosed in the Company's 2013 Annual Report on Form 10-K, the Company has frozen its participation and benefit accruals for the pension plan and its contributions for individual benefit payments in the postretirement benefit plan.



Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

13. OPERATING SEGMENT INFORMATION

We manage our operations and prepare management reports and other information with a primary focus on geographical area. As of June 30, 2014, we operate eight community/regional banks in distinct geographical areas. Performance assessment and resource allocation are based upon this geographical structure. Zions Bank operates 98 branches in Utah and 26 branches in Idaho. CB&T operates 95 branches in California. Amegy operates 84 branches in Texas. NBAZ operates 71 branches in Arizona. NSB operates 48 branches in Nevada. Vectra operates 36 branches in Colorado and one branch in New Mexico. TCBW operates one branch in the state of Washington. TCBO operates one branch in Oregon.

The operating segment identified as “Other” includes the Parent, Zions Management Services Company (“ZMSC”), certain nonbank financial service subsidiaries, TCBO, and eliminations of transactions between segments. The Parent’s operations are significant to the Other segment. Net interest income is substantially affected by the Parent’s interest on long-term debt. Net impairment losses on investment securities relate to the Parent. ZMSC provides internal technology and operational services to affiliated operating businesses of the Company. ZMSC charges most of its costs to the affiliates on an approximate break-even basis.

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

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

The following schedule presents selected operating segment information for the three months ended June 30, 2014 and 2013:

(In millions)	Zions Bank		CB&T		Amegy		NBAZ		NSB	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
<b>CONDENSED INCOME STATEMENT</b>										
Net interest income	\$ 145.6	\$ 150.8	\$ 103.7	\$ 122.6	\$ 95.4	\$ 94.0	\$ 40.3	\$ 41.4	\$ 28.3	\$ 28.6
Provision for loan losses	(15.4 )	(10.7 )	(12.9 )	(3.0 )	(7.5 )	5.7	(8.0 )	(4.7 )	(5.7 )	(8.7 )
Net interest income after provision for loan losses	161.0	161.5	116.6	125.6	102.9	88.3	48.3	46.1	34.0	37.3
Net impairment losses on investment securities	—	—	—	—	—	—	—	—	—	—
Other noninterest income	50.2	54.2	13.8	19.7	36.3	35.5	8.3	8.8	8.9	9.7
Noninterest expense	121.1	128.0	82.4	94.5	92.5	91.9	38.9	35.4	34.0	34.2
Income (loss) before income taxes	90.1	87.7	48.0	50.8	46.7	31.9	17.7	19.5	8.9	12.8
Income tax expense (benefit)	33.2	32.1	19.0	19.9	15.9	10.6	6.6	7.4	3.0	4.4
Net income (loss)	\$ 56.9	\$ 55.6	\$ 29.0	\$ 30.9	\$ 30.8	\$ 21.3	\$ 11.1	\$ 12.1	\$ 5.9	\$ 8.4
<b>AVERAGE BALANCE SHEET DATA</b>										
Total assets	\$ 17,593	\$ 17,522	\$ 11,044	\$ 10,823	\$ 13,618	\$ 13,215	\$ 4,696	\$ 4,620	\$ 4,073	\$ 4,064
Cash and due from banks	336	352	156	165	213	273	73	71	83	82
Money market investments	2,678	2,949	1,252	1,237	2,435	2,676	413	433	765	956
Total securities	1,747	1,311	237	334	260	313	371	300	787	780
Total loans	12,317	12,363	8,655	8,287	9,563	8,790	3,648	3,612	2,318	2,124
Total deposits	15,320	15,234	9,395	9,231	11,165	10,798	4,014	3,918	3,676	3,625
Shareholder's equity:										
Preferred equity	280	280	162	162	227	251	98	180	50	113
Common equity	1,552	1,533	1,368	1,319	1,873	1,776	454	407	324	304

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

Noncontrolling interests	—	—	—	—	—	—	—	—	—	
Total shareholder's equity	1,832	1,813	1,530	1,481	2,100	2,027	552	587	374	417
	Vectra		TCBW		Other		Consolidated Company			
	2014	2013	2014	2013	2014	2013	2014	2013		

CONDENSED INCOME STATEMENT

Net interest income	\$25.4	\$25.1	\$7.3	\$6.8	\$(29.7)	\$(38.6)	\$416.3	\$430.7
Provision for loan losses	(4.5)	(0.8)	(0.4)	0.1	—	0.1	(54.4)	(22.0)
Net interest income after provision for loan losses	29.9	25.9	7.7	6.7	(29.7)	(38.7)	470.7	452.7
Net impairment losses on investment securities	—	—	—	—	—	(4.2)	—	(4.2)
Other noninterest income	5.9	6.1	1.0	1.0	0.5	(5.7)	124.9	129.3
Noninterest expense	23.7	25.5	5.0	3.9	8.4	38.3	406.0	451.7
Income (loss) before income taxes	12.1	6.5	3.7	3.8	(37.6)	(86.9)	189.6	126.1
Income tax expense (benefit)	4.3	2.1	1.3	1.3	(13.3)	(34.7)	70.0	43.1
Net income (loss)	\$7.8	\$4.4	\$2.4	\$2.5	\$(24.3)	\$(52.2)	\$119.6	\$83.0

AVERAGE BALANCE SHEET DATA

Total assets	\$2,595	\$2,529	\$869	\$836	\$548	\$1,055	\$55,036	\$54,664
Cash and due from banks	47	50	21	19	(7)	(12)	922	1,000
Money market investments	18	78	94	103	(154)	220	7,501	8,652
Total securities	158	184	74	107	389	539	4,023	3,868
Total loans	2,316	2,138	665	595	62	62	39,544	37,971
Total deposits	2,184	2,165	734	703	(1,030)	(689)	45,458	44,985
Shareholder's equity:								
Preferred equity	42	70	3	3	142	460	1,004	1,519

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

Common equity	283	237	92	84	(201 )	(558 )	5,745	5,102
Noncontrolling interests	—	—	—	—	—	(3 )	—	(3 )
Total shareholder's equity	325	307	95	87	(59 )	(101 )	6,749	6,618

56

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

The following schedule presents selected operating segment information for the six months ended June 30, 2014 and 2013:

(In millions)	Zions Bank		CB&T		Amegy		NBAZ		NSB	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
<b>CONDENSED INCOME STATEMENT</b>										
Net interest income	\$288.1	\$302.3	\$212.9	\$237.2	\$190.1	\$189.4	\$80.6	\$81.9	\$56.2	\$56.0
Provision for loan losses	(24.1 )	(8.9 )	(15.0 )	(9.8 )	9.4	(8.1 )	(11.0 )	(4.7 )	(8.3 )	(8.9 )
Net interest income after provision for loan losses	312.2	311.2	227.9	247.0	180.7	197.5	91.6	86.6	64.5	64.9
Net impairment losses on investment securities	—	—	—	—	—	—	—	—	—	—
Other noninterest income	94.2	104.5	19.6	41.3	68.3	73.9	16.6	17.0	13.8	18.6
Noninterest expense	242.6	243.0	167.7	184.8	179.5	176.1	76.2	69.6	66.1	65.9
Income (loss) before income taxes	163.8	172.7	79.8	103.5	69.5	95.3	32.0	34.0	12.2	17.6
Income tax expense (benefit)	60.0	63.1	31.1	40.7	23.2	31.9	11.8	12.8	4.0	6.0
Net income (loss)	\$103.8	\$109.6	\$48.7	\$62.8	\$46.3	\$63.4	\$20.2	\$21.2	\$8.2	\$11.6
<b>AVERAGE BALANCE SHEET DATA</b>										
Total assets	\$17,932	\$17,290	\$10,967	\$10,872	\$13,543	\$12,954	\$4,654	\$4,606	\$4,032	\$4,058
Cash and due from banks	338	351	161	170	267	297	73	70	86	84
Money market investments	3,109	2,729	1,191	1,282	2,469	2,431	351	456	732	975
Total securities	1,672	1,275	282	339	251	362	368	287	784	761
Total loans	12,282	12,360	8,597	8,281	9,463	8,693	3,672	3,582	2,312	2,111
Total deposits	15,648	14,990	9,334	9,270	11,132	10,546	3,983	3,906	3,637	3,609
Shareholder's equity:										
Preferred equity	280	280	162	162	190	251	109	180	50	126
Common equity	1,545	1,521	1,359	1,323	1,861	1,760	438	404	321	301



Noncontrolling interests	—	—	—	—	—	—	—	—	—	
Total shareholder's equity	1,825	1,801	1,521	1,485	2,051	2,011	547	584	371	427
	Vectra		TCBW		Other		Consolidated Company			
	2014	2013	2014	2013	2014	2013	2014	2013		

#### CONDENSED INCOME STATEMENT

Net interest income	\$50.7	\$50.7	\$14.3	\$13.3	\$(60.1)	\$(82.0)	\$832.8	\$848.8
Provision for loan losses	(6.3)	(9.4)	0.3	(0.8)	—	(0.4)	(55.0)	(51.0)
Net interest income after provision for loan losses	57.0	60.1	14.0	14.1	(60.1)	(81.6)	887.8	899.8
Net impairment losses on investment securities	—	—	—	—	—	(14.3)	—	(14.3)
Other noninterest income	9.7	13.1	—	2.0	41.0	(9.8)	263.2	260.6
Noninterest expense	49.0	50.6	9.5	8.8	13.5	50.2	804.1	849.0
Income (loss) before income taxes	17.7	22.6	4.5	7.3	(32.6)	(155.9)	346.9	297.1
Income tax expense (benefit)	6.1	7.9	1.6	2.5	(11.7)	(61.2)	126.1	103.7
Net income (loss)	\$11.6	\$14.7	\$2.9	\$4.8	\$(20.9)	\$(94.7)	\$220.8	\$193.4

#### AVERAGE BALANCE SHEET DATA

Total assets	\$2,582	\$2,496	\$871	\$858	\$653	\$1,130	\$55,234	\$54,264
Cash and due from banks	47	51	21	19	(12)	(10)	981	1,032
Money market investments	16	62	106	142	(157)	307	7,817	8,384
Total securities	161	184	82	104	470	530	4,070	3,842
Total loans	2,298	2,115	648	580	64	64	39,336	37,786
Total deposits	2,176	2,136	738	719	(1,031)	(477)	45,617	44,699
Shareholder's equity:								
Preferred equity	56	70	3	3	154	303	1,004	1,375

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

Common equity	265	232	90	83	(209 )	(578 )	5,670	5,046
Noncontrolling interests	—	—	—	—	—	(3 )	—	(3 )
Total shareholder's equity	321	302	93	86	(55 )	(278 )	6,674	6,418

57

---

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

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

FORWARD-LOOKING INFORMATION

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

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

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

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

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

•changes in consumer spending and savings habits;

58

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

## GLOSSARY OF ACRONYMS

ABS	Asset-Backed Security	FASB	Financial Accounting Standards Board
ACL	Allowance for Credit Losses	FDIC	Federal Deposit Insurance Corporation
AFS	Available-for-Sale	FHLB	Federal Home Loan Bank
ALCO	Asset/Liability Committee	FRB	Federal Reserve Board
ALLL	Allowance for Loan and Lease Losses	GAAP	Generally Accepted Accounting Principles
Amegy	Amegy Corporation	HECL	Home Equity Credit Line
AOCI	Accumulated Other Comprehensive Income	HTM	Held-to-Maturity
ASC	Accounting Standards Codification	IA	Indemnification Asset
ASU	Accounting Standards Update	IFR	Interim Final Rule
BOLI	Bank-Owned Life Insurance	IFRS	International Financial Reporting Standards
bps	basis points	ISDA	International Swap Dealer Association
CB&T	California Bank & Trust	LCR	Liquidity Coverage Ratio
CCAR	Comprehensive Capital Analysis and Review	LGD	Loss Given Default
CDO	Collateralized Debt Obligation	LIBOR	London Interbank Offered Rate
CDR	Constant Default Rate	LIHTC	Low-Income Housing Tax Credit
CET1	Common Equity Tier 1 (Basel III)	Lockhart	Lockhart Funding LLC
CFPB	Consumer Financial Protection Bureau	MVE	Market Value of Equity
CLTV	Combined Loan-to-Value Ratio	NBAZ	National Bank of Arizona
CRE	Commercial Real Estate	NRSRO	Nationally Recognized Statistical Rating Organization
CSV	Cash Surrender Value	NSFR	Net Stable Funding Ratio
DB	Deutsche Bank AG	NSB	Nevada State Bank
DBRS	Dominion Bond Rating Service	OCC	Office of the Comptroller of the Currency
DFAST	Dodd-Frank Act Stress Test	OCI	Other Comprehensive Income
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act	OREO	Other Real Estate Owned
DTA	Deferred Tax Asset	OTC	Over-the-Counter
EITF	Emerging Issues Task Force	OTTI	Other-Than-Temporary Impairment
FAMC	Federal Agricultural Mortgage Corporation, or "Farmer Mac"	Parent	Zions Bancorporation



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

PCI	Purchased Credit-Impaired	T1C	Tier 1 Common (Basel I)
PD	Probability of Default	TCBO	The Commerce Bank of Oregon
PIK	Payment in Kind	TCBW	The Commerce Bank of Washington
REIT	Real Estate Investment Trust	TDR	Troubled Debt Restructuring
RULC	Reserve for Unfunded Lending Commitments	TRS	Total Return Swap
SBA	Small Business Administration	Vectra	Vectra Bank Colorado
SBIC	Small Business Investment Company	VR	Volcker Rule
SEC	Securities and Exchange Commission	Zions Bank	Zions First National Bank
SOC	Securitization Oversight Committee	ZMSC	Zions Management Services Company

## CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

The Company has made no significant changes in its critical accounting policies and significant estimates from those disclosed in its 2013 Annual Report on Form 10-K.

## RESULTS OF OPERATIONS

The Company reported net earnings applicable to common shareholders of \$104.5 million, or \$0.56 per diluted common share for the second quarter of 2014, compared to \$55.4 million, or \$0.30 per diluted common share for the same prior year period. The following notable changes had a positive impact on net earnings applicable to common shareholders:

- \$40.3 million decline in debt extinguishment cost;
- \$32.4 million increase in the negative provision for loan losses;
- \$15.7 million decline in total interest expense;
- \$12.6 million decrease in preferred stock dividends;
- \$11.2 million decline in other expense;
- \$6.2 million increase in fixed income securities gains, net;
- \$5.0 million decline in professional and legal services expense; and
- \$4.2 million decrease in net impairment losses on investment securities.

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

- \$30.0 million decline in total interest income;
- \$26.9 million increase in income tax expense;
- \$11.4 million increase in salaries and employee benefits;
- \$4.4 million decline in loan sales and servicing income;
- \$3.8 million decline in other income; and
- \$3.3 million decline in dividends and other investment income.

Net earnings applicable to common shareholders for the first six months of 2014 were \$180.7 million, or \$0.97 per diluted share, compared to net earnings to common shareholders of \$143.7 million, or \$0.77 per diluted share in the corresponding prior year period. The improved result reflects the following:

- \$40.3 million decline in debt extinguishment cost;
- \$33.8 million increase in fixed income securities gains, net;
- \$31.2 million decline in total interest expense;
- \$16.5 million decline in other expense;

\$14.3 million decrease in net impairment losses on investment securities;  
\$10.0 million decrease in preferred stock dividends; and  
\$4.0 million increase in the negative provision for loan losses.

60

---



Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

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

- \$47.2 million decline in total interest income;
- \$22.4 million increase in income tax expense;
- \$15.1 million increase in salaries and employee benefits expense;
- \$8.9 million decline in loan sales and servicing income;
- \$8.5 million increase in the provision for unfunded lending commitments;
- \$8.2 million decline in dividends and other investment income; and
- \$7.5 million decline in other income.

Net Interest Income, Margin and Interest Rate Spreads

Net interest income is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities; net interest income is the largest portion of the Company's revenue. For the second quarter of 2014, taxable-equivalent net interest income was \$420.2 million, compared to \$420.3 million for the first quarter of 2014, and \$434.6 million for the second quarter of 2013. The tax rate used for calculating all taxable-equivalent adjustments was 35% for all periods presented.

Net interest margin in 2014 vs. 2013

The net interest margin was 3.29% and 3.44% for the second quarter of 2014 and 2013, respectively, and 3.31% for the first quarter of 2014. The decreased net interest margin for the second quarter of 2014 compared to the same prior year period resulted primarily from:

- decreased income from FDIC-supported/PCI loans with lower average balances; and
- lower yields on loans held for investment.

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

- decreased average balance and lower rates for long-term debt; and
- decreased average balance and lower costs of deposit funding.

The average balance of the FDIC-supported/PCI portfolio for the second quarter 2014 was 40% lower than for the quarter ending June 30, 2013. The decline in the balance is primarily due to paydowns and payoffs; no new loans were added to this portfolio during the period. The yield on this portfolio was 23.0% in the second quarter of 2014, generating approximately \$15.7 million of interest income. The yield on this portfolio was 31.2% in the second quarter of 2013, generating approximately \$35.2 million of interest income. The decrease in yield is attributed primarily to lower unexpected cash flows from paydowns and payoffs during the second quarter of 2014 compared to the second quarter of 2013. The amount of accretable yield for PCI loans at June 30, 2014, which is the major portion of the FDIC-supported/PCI loans, is approximately \$60.8 million. This amount is currently estimated to approximate the interest income that would be recognized over the remaining life of the loans based on our experience with these loans as adjusted by our changes in estimates of cash flows. See further discussion in Note 6 of the Notes to Consolidated Financial Statements.

Even though the Company's average loan portfolio, excluding FDIC-supported/PCI loans, was \$1.8 billion higher during the second quarter of 2014, compared to the second quarter of 2013, the average interest rate earned on those assets was 4.3%, which is 27 bps lower than the comparable prior period rate. This decline in interest income was primarily caused by (1) adjustable rate loans originated in the past resetting to lower rates due to the current repricing index being lower than the rate when the loans were originated, and (2) loans originated at lower rates than the weighted average rate of the existing portfolio. The primary reason for the narrowing of credit and interest rate spreads is believed to be competitive pricing pressures, which are the result of a more stable economic environment than a few years ago; a portion of the narrowing of the spreads may be attributed to the improved fundamental condition of the Company's borrowers, such as a stronger earnings and improved leverage ratios, as asset values have appreciated in the recent several quarters.



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

The average HTM securities portfolio was \$600.4 million during the second quarter of 2014, compared to \$740.8 million during the same prior year period. During the fourth quarter of 2013, the Company reclassified a substantial portion of its CDO securities from HTM to AFS as a result of the impact of the Volcker Rule. The average yield earned during the second quarter of 2014 on HTM securities was 30 bps higher than the yield in the same prior year period, primarily due to the reclassification of CDO securities into the AFS portfolio during the fourth quarter of 2013 that have a lower-yield than the remaining securities in the HTM portfolio.

The average balance of AFS securities for the second quarter of 2014 was 8.6% higher and the average yield was 38 bps lower than in the corresponding prior year period. The increase in AFS securities is due to an increase in the fair value of existing securities due to higher market prices. The yield was impacted by the sale of \$993 million par amount of the Company's CDO securities in the first quarter of 2014.

The CDO portfolio has a \$239 million difference between par amount and amortized cost of which 48% was estimated by the Company at June 30, 2014 to be recoverable through maturity. This potential resulting benefit amount will be recognized over time through accretion into income or, upon prepayment, will produce realized gains on the CDOs.

Average noninterest-bearing demand deposits provided the Company with low cost funding and comprised 42.3% of average total deposits for the second quarter of 2014, compared to 39.2% for the same prior year period. Average interest-bearing deposits were down 4.1% in the second quarter compared to the same prior year period; however, the rate paid declined by 4 bps to 18 bps, thus continuing the difficulty to reduce deposit costs further as these costs approach zero.

During 2013, the Company refinanced a portion of its long-term debt by repurchasing higher cost debt while issuing lower cost debt. During the second quarter of 2014, the average balance of long-term debt was \$175.4 million, or 8%, lower than during the same prior year period, and the average interest rate paid on long-term debt decreased by 174 bps, or 20%. Refer to the "Liquidity Management Actions" section for more information.

During the second quarter of 2014, most of the Company's cash in excess of that needed to fund earning assets was invested in money market assets, primarily deposits with the Federal Reserve Bank. Average money market investments were 14.7% of total interest-earning assets, compared to 17.1% in the same prior year period.

See "Interest Rate and Market Risk Management" on page 87 for further discussion of how we manage the portfolios of interest-earning assets, interest-bearing liabilities, and the associated risk.

The spread on average interest-bearing funds was 3.00% and 3.10% for the second quarters of 2014 and 2013, respectively. The spread on average interest-bearing funds for the second quarter was affected by the same factors that impacted the net interest margin.

We expect the mix of interest-earning assets to change over the next several quarters due to further decreases in the FDIC-supported/PCI loan portfolio, and slight-to-moderate loan growth in the commercial and industrial and residential mortgage portfolios, accompanied by somewhat less growth, or even reduction, in commercial real estate loans. Average yields on the loan portfolio are likely to continue to experience downward pressure due to competitive pricing, lower benchmark indices (such as LIBOR), and growth in lower-yielding residential mortgages. We believe that some of the downward pressure on the net interest margin will be mitigated by the lower interest expense on long-term debt that will mature in 2014 and 2015. We also believe we can offset some of the pressure on the net interest margin through loan growth.

The Company expects to remain "asset-sensitive" with regard to interest rate risk. The current period of low interest rates has lasted for several years. During this time, the Company has maintained an interest rate risk position that is more asset-sensitive than it was prior to the economic crisis, and it expects to maintain this more asset-sensitive position for what may be a prolonged period. With interest rates at low levels, there is a reduced need to protect against falling interest rates. Our estimates of the Company's actual interest rate risk position are highly dependent upon a number of assumptions regarding the repricing behavior of various deposit and loan types in response to



Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

changes in both short-term and long-term interest rates, balance sheet composition, and other modeling assumptions, as well as the actions of competitors and customers in response to those changes. In addition, our modeled projections for noninterest-bearing demand deposits, a substantial portion of our deposit balances, are particularly reliant on assumptions for which there is little historical experience. Further detail on interest rate risk is discussed in “Interest Rate Risk.”

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

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Unaudited)

(In thousands)	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Average balance	Amount of interest <sup>1</sup>	Average rate	Average balance	Amount of interest <sup>1</sup>	Average rate
<b>ASSETS</b>						
Money market investments	\$7,500,554	\$4,888	0.26 %	\$8,652,403	\$5,764	0.27 %
Securities:						
Held-to-maturity	600,392	8,040	5.37 %	740,839	9,372	5.07 %
Available-for-sale	3,355,710	17,746	2.12 %	3,090,910	19,303	2.50 %
Trading account	66,929	566	3.39 %	36,296	287	3.17 %
Total securities	4,023,031	26,352	2.63 %	3,868,045	28,962	3.00 %
Loans held for sale	113,569	1,021	3.61 %	141,313	1,224	3.47 %
Loans <sup>2</sup> :						
Loans and leases	39,271,351	419,198	4.28 %	37,518,549	425,962	4.55 %
FDIC-supported/PCI loans	272,762	15,651	23.01 %	452,849	35,243	31.22 %
Total loans	39,544,113	434,849	4.41 %	37,971,398	461,205	4.87 %
Total interest-earning assets	51,181,267	467,110	3.66 %	50,633,159	497,155	3.94 %
Cash and due from banks	922,421			1,000,221		
Allowance for loan losses	(734,517 )			(837,651 )		
Goodwill	1,014,129			1,014,129		
Core deposit and other intangibles	32,234			45,262		
Other assets	2,620,739			2,808,640		
Total assets	\$55,036,273			\$54,663,760		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Interest-bearing deposits:						
Savings and money market	\$23,479,755	9,069	0.15 %	\$22,871,040	10,144	0.18 %
Time	2,507,489	2,918	0.47 %	2,842,322	4,179	0.59 %
Foreign	258,234	109	0.17 %	1,642,381	820	0.20 %
Total interest-bearing deposits	26,245,478	12,096	0.18 %	27,355,743	15,143	0.22 %
Borrowed funds:						
Federal funds and other short-term borrowings	261,011	63	0.10 %	287,766	78	0.11 %
Long-term debt	2,038,810	34,749	6.84 %	2,214,215	47,355	8.58 %
Total borrowed funds	2,299,821	34,812	6.07 %	2,501,981	47,433	7.60 %
Total interest-bearing liabilities	28,545,299	46,908	0.66 %	29,857,724	62,576	0.84 %
Noninterest-bearing deposits	19,212,574			17,629,219		
Other liabilities	529,716			559,219		
Total liabilities	48,287,589			48,046,162		
Shareholders' equity:						
Preferred equity	1,003,988			1,518,823		
Common equity	5,744,696			5,102,082		
Controlling interest shareholders' equity	6,748,684			6,620,905		
Noncontrolling interests	—			(3,307 )		

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

Total shareholders' equity	6,748,684			6,617,598		
Total liabilities and shareholders' equity	\$55,036,273			\$54,663,760		
Spread on average interest-bearing funds			3.00 %			3.10 %
Taxable-equivalent net interest income and net yield on interest-earning assets		\$420,202	3.29 %		\$434,579	3.44 %

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

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

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Unaudited)

(In thousands)	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Average balance	Amount of interest <sup>1</sup>	Average rate	Average balance	Amount of interest <sup>1</sup>	Average rate
<b>ASSETS</b>						
Money market investments	\$7,817,080	\$10,018	0.26 %	\$8,383,594	\$11,203	0.27 %
Securities:						
Held-to-maturity	593,968	16,231	5.51 %	748,745	18,908	5.09 %
Available-for-sale	3,413,028	38,976	2.30 %	3,063,404	37,305	2.46 %
Trading account	62,759	1,048	3.37 %	29,496	477	3.26 %
Total securities	4,069,755	56,255	2.79 %	3,841,645	56,690	2.98 %
Loans held for sale	135,249	2,421	3.61 %	172,780	2,988	3.49 %
Loans <sup>2</sup> :						
Loans and leases	39,039,559	831,038	4.29 %	37,310,024	853,567	4.61 %
FDIC-supported/PCI loans	296,099	38,786	26.42 %	475,625	61,592	26.11 %
Total loans	39,335,658	869,824	4.46 %	37,785,649	915,159	4.88 %
Total interest-earning assets	51,357,742	938,518	3.69 %	50,183,668	986,040	3.96 %
Cash and due from banks	981,336			1,031,593		
Allowance for loan losses	(740,063 )			(860,878 )		
Goodwill	1,014,129			1,014,129		
Core deposit and other intangibles	33,645			47,155		
Other assets	2,587,040			2,848,774		
Total assets	\$55,233,829			\$54,264,441		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Interest-bearing deposits:						
Savings and money market	\$23,195,557	17,921	0.16 %	\$22,803,524	20,556	0.18 %
Time	2,533,740	6,001	0.48 %	2,888,562	8,654	0.60 %
Foreign	1,000,946	953	0.19 %	1,585,837	1,575	0.20 %
Total interest-bearing deposits	26,730,243	24,875	0.19 %	27,277,923	30,785	0.23 %
Borrowed funds:						
Federal funds and other short-term borrowings	255,060	130	0.10 %	290,990	170	0.12 %
Long-term debt	2,137,585	73,006	6.89 %	2,272,441	98,254	8.72 %
Total borrowed funds	2,392,645	73,136	6.16 %	2,563,431	98,424	7.74 %
Total interest-bearing liabilities	29,122,888	98,011	0.68 %	29,841,354	129,209	0.87 %
Noninterest-bearing deposits	18,887,091			17,421,371		
Other liabilities	549,429			583,578		
Total liabilities	48,559,408			47,846,303		
Shareholders' equity:						
Preferred equity	1,003,979			1,375,064		
Common equity	5,670,442			5,046,508		
Controlling interest shareholders' equity	6,674,421			6,421,572		
Noncontrolling interests	—			(3,434 )		



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

Total shareholders' equity	6,674,421			6,418,138		
Total liabilities and shareholders' equity	\$55,233,829			\$54,264,441		
Spread on average interest-bearing funds			3.01 %			3.09 %
Taxable-equivalent net interest income and net yield on interest-earning assets		\$840,507	3.30 %		\$856,831	3.44 %

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

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

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

Provisions for Credit Losses

The provision for loan losses is the amount of expense that, in our judgment, is required to maintain the allowance for loan losses at an adequate level based upon the inherent risks in the loan portfolio. The provision for unfunded lending commitments is used to maintain the reserve for unfunded lending commitments at an adequate level based upon the inherent risks associated with such commitments. In determining adequate levels of the allowance and reserve, we perform periodic evaluations of the Company's various loan portfolios, the levels of actual charge-offs, credit trends, and external factors. See Note 6 of the Notes to Consolidated Financial Statements and "Credit Risk Management" for more information on how we determine the appropriate level for the ALLL and the RULC.

The provision for loan losses for the second quarter of 2014 was \$(54.4) million compared to \$(22.0) million for the same prior year period. For the first six months of 2014 and 2013, the provision for loan losses was \$(55.0) million and \$(51.0) million, respectively. The negative provision is due to continued significant improvement in portfolio-specific credit quality metrics and sustained improvement in broader economic and credit quality indicators. The second quarter of 2014 saw the resumption of improvements in credit quality metrics that slightly deteriorated during the first quarter of 2014, slowing the release of the reserve that quarter.

During the past few years, the Company has experienced a significant improvement in credit quality metrics, including lower realized loss rates in most loan segments, and those trends continued during the second quarter of 2014. Although net loan and lease charge-offs slightly increased to \$6.2 million in the second quarter of 2014, compared to \$5.7 million in the same prior year period, gross charge-offs decreased to \$23.4 million in the second quarter of 2014 from \$35.1 million in the same prior year period. During the second quarter of 2014, the annualized ratio of net loan and lease charge-offs to average loans remained at 0.06% compared to the same prior year period. This low level of net charge-offs contributed to the release of the reserve during the second quarter of 2014. See "Nonperforming Assets" and "Allowance and Reserve for Credit Losses" beginning on page 83 for further details.

Most other credit quality indicators continued to show improvement during the second quarter of 2014. Levels of criticized and classified loans decreased during the second quarter. At June 30, 2014, classified loans were \$1.3 billion, compared to \$1.4 billion at March 31, 2014 and \$1.8 billion at June 31, 2013. Additionally, at June 30, 2014, nonperforming lending-related assets were \$379 million, compared to \$441 million at March 31, 2014 and \$602 million at June 30, 2013.

The Company continues to exercise caution with regard to the appropriate level of the ALLL, given the slow economic recovery, but the sustained period of economic stability is reflected in the decrease in the ALLL. Barring any significant economic downturn, we expect the Company's credit costs to remain low for the foreseeable future.

During the second quarter of 2014, the Company recorded a \$6.8 million provision for unfunded lending commitments compared to \$3.6 million for the same prior year period. For the first six months of 2014 and 2013, the provision for unfunded lending commitments was \$5.8 million and \$(2.7) million, respectively. The increase in the provision for unfunded lending commitments is primarily due to deterioration in credit quality for a few particular borrowers. The increase was partially offset by sustained improvement in broad economic and credit quality indicators. From period to period, the expense related to the reserve for unfunded lending commitments may be subject to sizable fluctuations due to changes in the timing and volume of loan commitments, originations, and funding, as well as changes in credit quality.

A significant portion of net earnings in recent periods is attributable to the reduction in the allowance for credit losses. This is primarily attributable to continued reduction in both the quantity of problem loans and their loss severity. Although we currently expect further reductions in the allowance based on expected improvements in credit quality,

this source of earnings is not sustainable into perpetuity; furthermore, a deterioration in economic conditions within our footprint would likely result in net additions to the allowance, which could result in a significant change in profitability.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

Noninterest Income

Noninterest income represents revenues the Company earns for products and services that have no associated interest rate or yield. For the second quarter of 2014, noninterest income was \$124.8 million compared to \$125.1 million for the same prior year period. The \$0.3 million decrease was primarily attributable to a decrease in loan sales and servicing income, other income, and in dividends and other investment income, partially offset by increases in fixed income securities gains, net and net impairment losses on investment securities. The following are major components of noninterest income line items impacting the second quarter change.

Other service charges, commissions and fees, which are comprised of ATM fees, insurance commissions, bankcard merchant fees, debit and credit card interchange fees, cash management fees, lending commitment fees, syndication and servicing fees, and other miscellaneous fees increased by \$1.6 million in the second quarter of 2014 compared to the same prior year period. The increase was primarily due to increased interchange fees from commercial credit cards.

Dividends and other investment income consists of revenue from the Company's bank-owned life insurance ("BOLI") program and revenues from other investments. Revenues from other investments include dividends on FHLB and Federal Reserve Bank stock, and earnings from other equity investments, including Federal Agricultural Mortgage Corporation ("FAMC") and certain alternative venture investments. For the second quarter of 2014, dividends and other investment income was \$8.0 million, compared to \$11.3 million in the second quarter of 2013. The decrease is mostly caused by lower income from alternative venture investments, primarily at California Bank & Trust and Zions First National Bank, and lower BOLI income.

Loan sales and servicing income declined \$4.4 million during the second quarter, or 41%, compared to the prior year period. The decrease is primarily caused by decreased income from loan sales, as the volume of loan sales declined in the current quarter compared to the prior quarter.

Fixed income securities gains were \$5.0 million in the second quarter of 2014, compared to losses of \$1.2 million in the second quarter of 2013. The net gain recorded in the second quarter of 2014 was due to paydowns of CDO securities as there were no sales of CDOs in the second quarter of 2014. See "Investment Securities Portfolio" on page 70 for additional information.

The Company did not recognize any net impairment losses on investment securities in the second quarter of 2014 compared to \$4.2 million in the second quarter of 2013. See "Investment Securities Portfolio" on page 70 for additional information.

For the first six months of 2014, noninterest income increased \$16.8 million or 6.8% as compared to the first six months of 2013. The increase was primarily caused by an increase in one time fixed income securities gains recorded in the first quarter of 2014 associated with the sales of CDO securities. All other significant components impacting the first six months of the year not mentioned above are as follows:

Capital markets and foreign exchange income includes trading income, public finance fees, foreign exchange income, and other capital market related fees. In the first six months of 2014, capital markets and foreign exchange income decreased by \$3.4 million, or 24%, from the same period in 2013, primarily due to a decline in foreign exchange income, trading income, and public finance related fees.

The Company recognized net impairment losses on investment securities of \$27 thousand in the first six months of 2014, compared to \$14.3 million in the same period for 2013. See "Investment Securities Portfolio" on page 70 for

additional information.

67

---

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

Noninterest Expense

Noninterest expense decreased by 10.0% or \$45.7 million to \$406.0 million in the second quarter of 2014 compared to the same prior year period. The decrease was primarily caused by a decrease in debt extinguishment cost and other expenses, partially offset by an increase in salaries and employee benefits. The following are major components of noninterest expense line items impacting the second quarter change.

Salaries and employee benefits increased by 5.0% during the second quarter of 2014, compared to the same prior year period. Most of the increase can be attributed to higher base salaries and employee insurance driven by an increase of 154 in full-time equivalent employees from the second quarter of 2013.

Debt extinguishment cost declined \$40.3 million in the second quarter of 2014, compared to the same prior year period. The decrease is because in the second quarter of 2014 the Company did not extinguish any debt compared to the second quarter of 2013 when the Company extinguished \$285 million of its 8.00% trust preferred securities and approximately \$258 million of 7.75% senior notes.

Other noninterest expense for the second quarter of 2014 was \$67.0 million, compared to \$78.1 million for the second quarter of 2013. The decrease is mostly the result of decreased write-downs of the FDIC indemnification asset. The balance of FDIC-supported/PCI loans has declined significantly since the second quarter of 2013, primarily due to paydowns and payoffs.

For the first six months of 2014 noninterest expense decreased \$44.9 million, or 5.3%, compared to the first six months of 2013. The decrease was primarily caused by decreases in one time debt extinguishment costs recorded in the second quarter of 2013. All other significant components impacting the first six months of the year not mentioned above are as follows:

Credit-related expense includes costs incurred during the foreclosure process prior to the Company obtaining title to collateral and recording an asset in OREO, as well as other out-of-pocket costs related to the management of problem loans and other assets. During the first six months of 2014 and 2013, credit-related expense was \$14.0 million and \$19.9 million, respectively. The decrease is primarily attributable to lower legal, property tax, and appraisal expenses due to lower levels of problem credits compared to the prior year period.

During the first six months of 2014, the Company recorded a \$5.8 million provision for unfunded lending commitments compared to \$(2.7) million for the same prior year period. See "Provisions for Credit Losses" on page 66 for additional information.

Professional and legal services were \$23.2 million in the first six months of 2014, compared to \$27.6 million in the first half of 2013. The decline in fees is primarily attributable to a decrease in legal and professional costs partially offset by an increase in consulting costs.

As of June 30, 2014, the Company had 10,536 full-time equivalent employees, compared to 10,382 at June 30, 2013.

Income Taxes

The Company's income tax expense for the second quarter of 2014 was \$70.0 million compared to \$43.1 million for the same period in 2013. The effective income tax rates, including the effects of noncontrolling interests, were 36.9% for the second quarter of 2014 and 34.2% for the same period of 2013. The tax expense rate for the second quarters of 2014 and 2013 were both benefited primarily by the non-taxability of certain income items. The tax rate for the second quarter of 2014 was slightly higher compared to the same period in 2013 due to a slight decrease in the amount

of nontaxable items relative to pretax income as well as the accrual of \$2.3 million of interest expense, reflected in tax expense for the period, to settle certain income tax examinations. The year-to-date tax rates for 2014 and 2013 were similarly impacted by the above-discussed permanent items.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

The Company had a net deferred tax asset (“DTA”) balance of \$239 million at June 30, 2014, compared to \$304 million at December 31, 2013. The decrease in the DTA resulted primarily from the sale of CDO securities, loan charge-offs in excess of loan loss provisions, and the payout of accrued compensation. The decrease in the deferred tax liability related to premises and equipment and the deferred gain on the Company’s 2009 debt exchange offset some of the overall decrease in DTA.

Preferred Stock Dividends

The Company’s preferred stock dividends decreased in the second quarter of 2014 by \$12.6 million, or 45.5%, from the comparable prior year period. The decrease in the dividends is due to the decrease in the average amount of preferred stock outstanding by \$514.8 million, or 33.9% from June 30, 2013 to June 30, 2014.

BALANCE SHEET ANALYSIS

Interest-Earning Assets

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

Average interest-earning assets were \$51.4 billion for the first six months of 2014, compared to \$50.2 billion for the same prior year period. Average interest-earning assets as a percentage of total average assets for the first six months of 2014 was 93.0%, compared to 92.5% for the same prior year period.

Average total loans, including FDIC-supported/PCI loans, were \$39.3 billion and \$37.8 billion for the first six months of 2014 and 2013, respectively. Average loans as a percentage of total average assets for the first six months of 2014 was 71.2% compared to 69.6% in the corresponding prior year period.

Average money market investments, consisting of interest-bearing deposits, federal funds sold, and security resell agreements, decreased by 6.8% to \$7.8 billion for the first six months of 2014. Average securities increased by 5.9% for the first six months of 2014. Average total deposits increased by 2.1% while average total loans increased by 4.1% for the first six months of 2014 compared to the same prior year period. Increased deposits combined with moderate loan growth resulted in higher balances of excess cash that were deployed in money market investments.

Investment Securities Portfolio

We invest in securities to generate revenues for the Company; portions of the portfolio are also available as a source of liquidity. The following schedules present a profile of the Company’s investment securities portfolio. The amortized cost amounts represent the Company’s original cost of the investments, adjusted for related accumulated amortization or accretion of any yield adjustments, and for impairment losses, including credit-related impairment. The estimated fair value measurement levels and methodology are discussed in detail on page 53 in Note 10 of the Notes to Consolidated Financial Statements.

We have included selected credit rating information for certain of the investment securities schedules because this information is one indication of the degree of credit risk to which we are exposed, and significant declines in ratings for our investment portfolio could indicate an increased level of risk for the Company.





Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## INVESTMENT SECURITIES PORTFOLIO

(In millions)	June 30, 2014			December 31, 2013		
	Amortized cost	Carrying value	Estimated fair value	Amortized cost	Carrying value	Estimated fair value
Held-to-maturity						
Municipal securities	\$576	\$576	\$589	\$551	\$551	\$558
Asset-backed securities:						
Trust preferred securities – banks and insurance	80	39	55	80	38	51
	656	615	644	631	589	609
Available-for-sale						
U.S. Treasury securities	1	1	1	1	2	2
U.S. Government agencies and corporations:						
Agency securities	604	601	601	518	519	519
Agency guaranteed mortgage-backed securities	302	313	313	309	317	317
Small Business Administration loan-backed securities	1,405	1,415	1,415	1,203	1,221	1,221
Municipal securities	188	189	189	65	66	66
Asset-backed securities:						
Trust preferred securities – banks and insurance	915	750	750	1,508	1,239	1,239
Trust preferred securities – real estate investment trusts	—	—	—	23	23	23
Auction rate securities	7	7	7	7	7	7
Other	1	1	1	28	28	28
	3,423	3,277	3,277	3,662	3,422	3,422
Mutual funds and other	189	186	186	287	280	280
	3,612	3,463	3,463	3,949	3,702	3,702
Total	\$4,268	\$4,078	\$4,107	\$4,580	\$4,291	\$4,311

The amortized cost of investment securities on June 30, 2014 decreased by 6.8% from the balances at December 31, 2013, primarily due to the decreased investments in CDO securities, agency guaranteed mortgage-backed securities, and mutual funds, partially offset by agency securities, Small Business Administration loan-backed securities, and municipal securities. The Company did not sell any CDO securities during the second quarter of 2014. In the third quarter of 2014, the Company has sold some CDOs and may execute additional CDO sales. The CDO securities sold during the first quarter consisted of the following:

## SECURITIES SOLD IN 2014

(In millions)	As of date sold			Six Months Ended June 30, 2014	
	Par value	Amortized cost	Carrying value	Sales proceeds	Gain (loss) realized
Performing CDOs					
Predominantly bank CDOs	\$4	\$2	\$5	\$2	\$—
Insurance CDOs	368	352	345	313	(40)
Other CDOs	43	26	26	28	3

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

Total performing CDOs	415	380	376	343	(37	)
Nonperforming CDOs <sup>1</sup>						
CDOs credit-impaired prior to last 12 months	197	74	73	90	16	
CDOs credit-impaired during last 12 months	320	127	128	174	47	
Total nonperforming CDOs	517	201	201	264	63	
Total	\$932	\$581	\$577	\$607	\$26	

<sup>1</sup>Defined as either deferring current interest (“PIKing”) or OTTI.

70

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

As of June 30, 2014, 5.1% of the \$3.5 billion fair value of available-for-sale (“AFS”) securities portfolio was valued at Level 1, 74.6% was valued at Level 2, and 20.3% was valued at Level 3 under the GAAP fair value accounting hierarchy. At December 31, 2013, 7.0% of the \$3.7 billion fair value of AFS securities portfolio was valued at Level 1, 57.7% was valued at Level 2, and 35.3% was valued at Level 3. See Note 10 of the Notes to Consolidated Financial Statements for further discussion of fair value accounting.

The amortized cost of AFS investment securities valued at Level 3 was \$867 million at June 30, 2014 and the fair value of these securities was \$702 million. The securities valued at Level 3 were comprised of primarily bank and insurance trust preferred CDOs and municipal securities. For these Level 3 securities, net pretax unrealized losses recognized in OCI at June 30, 2014 were \$165 million. As of June 30, 2014, we believe we will receive on settlement or maturity at least the amortized cost amounts of the Level 3 AFS securities. This expectation applies to both those securities for which OTTI has been recognized and those for which no OTTI has been recognized.

Estimated fair value determined under ASC 820 precludes the use of “blockage factors” or liquidity adjustments due to the quantity of securities held by the Company. The Company’s ability to sell in a short period of time a substantial portion of its CDO securities at the indicated estimated fair values, particularly those valued under Level 3, is highly dependent upon market conditions at the time of sale. The market for such securities, which showed substantial improvement in late 2013 and early 2014, remains difficult to predict. Please refer to Notes 5 and 10 of the Notes to Consolidated Financial Statements for more information.

The following schedule presents the Company’s CDOs according to performing tranches without credit impairment, and nonperforming tranches. These CDOs constitute our holdings of our asset-backed securities and consist of both HTM and AFS securities.

**CDO INVESTMENTS – SELECTED INFORMATION STRATIFIED INTO PERFORMING TRANCHES  
WITHOUT CREDIT IMPAIRMENT AND NONPERFORMING TRANCHES**

June 30, 2014

(Dollar amounts in millions)	No. of tranches	Par amount	Amortized cost	Carrying value	Net unrealized (losses) gains recognized in AOCI <sup>1</sup>	Weighted average discount rate <sup>2</sup>	% of carrying value to par
<b>Performing CDOs</b>							
Predominantly bank CDOs	23	\$639	\$580	\$478	\$(102 )	5.1	% 75
Insurance-only CDOs	2	42	40	41	1	1.3	98
Total performing CDOs	25	681	620	519	(101 )	4.9	76
<b>Nonperforming CDOs <sup>3</sup></b>							
CDOs credit-impaired prior to last 12 months	21	460	296	209	(87 )	4.5	45
CDOs credit-impaired during last 12 months	5	67	54	38	(16 )	5.5	57
Total nonperforming CDOs	26	527	350	247	(103 )	4.6	47
Total CDOs	51	\$1,208	\$970	\$766	\$(204 )	4.8	63

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

<sup>2</sup> Margin over related LIBOR index.

<sup>3</sup>

Defined as either deferring current interest (“PIKing”) or OTTI. At June 30, 2014, the large majority of nonperforming CDOs were paying current interest but had previous OTTI.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## CDO INVESTMENTS – CHANGES IN SELECTED INFORMATION

Changes from March 31, 2014 to June 30, 2014

(Dollar amounts in millions)	No. of tranches	Par amount	Amortized cost	Carrying value	Decrease (increase) in net unrealized losses recognized in AOCI <sup>1</sup>	Weighted average discount rate <sup>2</sup>	% of carrying value to par
<b>Performing CDOs</b>							
Predominantly bank CDOs	—	\$(16 )	\$(11 )	\$(8 )	\$3	(0.2 )%	1 %
Insurance-only CDOs	—	(8 )	(8 )	(5 )	3	(0.9 )	6
Total performing CDOs	—	(24 )	(19 )	(13 )	6	(0.2 )	1
<b>Nonperforming CDOs <sup>3</sup></b>							
CDOs credit-impaired prior to last 12 months	3	77	5	9	4	(1.0 )	(7 )
CDOs credit-impaired during last 12 months	(3 )	(78 )	(5 )	(4 )	1	—	(28 )
Total nonperforming CDOs	—	(1 )	—	5	5	(0.8 )	1
Total CDOs	—	\$(25 )	\$(19 )	\$(8 )	\$11	(0.3 )	—

December 31, 2013

(Dollar amounts in millions)	No. of tranches	Par amount	Amortized cost	Carrying value	Net unrealized losses recognized in AOCI <sup>1</sup>	Weighted average discount rate <sup>2</sup>	% of carrying value to par
<b>Performing CDOs</b>							
Predominantly bank CDOs	23	\$687	\$617	\$499	\$(118 )	5.6	% 73 %
Insurance-only CDOs	22	433	413	346	(67 )	4.9	80
Other CDOs	3	43	26	26	—	10.6	60
Total performing CDOs	48	1,163	1,056	871	(185 )	5.5	75
<b>Nonperforming CDOs <sup>3</sup></b>							
CDOs credit-impaired prior to last 12 months	32	614	369	285	(84 )	7.0	46
CDOs credit-impaired during last 12 months	23	448	187	147	(40 )	6.5	33
Total nonperforming CDOs	55	1,062	556	432	(124 )	6.8	41
Total CDOs	103	\$2,225	\$1,612	\$1,303	\$(309 )	6.1	59

<sup>1</sup> Accumulated other comprehensive income, amounts presented are pretax.<sup>2</sup> Margin over related LIBOR index.<sup>3</sup> Defined as either deferring current interest (“PIKing”) or OTTI; the majority are predominantly bank CDOs.

As shown in the following schedule, 24 of the Company’s CDO securities, representing 62.5% of the CDO bank and insurance portfolio’s fair value at June 30, 2014, were upgraded by one or more NRSROs during 2014. The Company attributes these upgrades to improvements in over-collateralization ratios and de-leveraging combined with certain

less severe rating agency assumptions and methodologies.

72

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## BANK AND INSURANCE TRUST PREFERRED CDOs

(Dollar amounts in millions)	June 30, 2014			
	No. of securities	Par amount	Amortized cost	Fair value
Year-to-date rating changes <sup>1</sup>				
Upgrade	24	\$686	\$617	\$488
No change	27	522	353	293
Downgrade	—	—	—	—
Total	51	\$1,208	\$970	\$781

<sup>1</sup> By any NRSRO

## Significant Assumption Changes

The only significant assumption changes in 2014 were the reduction in the discount rates used for fair value purposes by approximately 30 bps in the first quarter of 2014 and a further reduction of approximately 14 bps in the second quarter of 2014. The Company observed increased prices in market trades in the first quarter which continued in the second quarter. The Company incorporated these observations into the process used to estimate fair value. In the second quarter, this trade information included sales of CDO securities by third parties throughout the quarter. Accordingly, the fair value of the Company's CDO portfolio increased in the second quarter, consistent with observable CDO trades.

## Valuation Sensitivity of Level 3 Bank and Insurance CDOs

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

## SENSITIVITY OF INTERNAL MODEL

(Amounts in millions)	Held-to-maturity		Available-for-sale	
	Incremental	Cumulative	Incremental	Cumulative
Fair value at June 30, 2014	\$54		\$686	
Currently Modeled Assumptions				
Expected collateral credit losses <sup>1</sup>				
Loss percentage from currently defaulted or deferring collateral <sup>2</sup>		15.9 %		28.5 %
Projected loss percentage from currently performing collateral				
1-year	0.2 %	16.2 %	0.3 %	28.8 %
years 2-5	1.7 %	17.9 %	1.5 %	30.3 %
years 6-30	12.0 %	29.8 %	10.1 %	40.4 %
Discount rate <sup>3</sup>				
Weighted average spread over LIBOR	546	bps	538	bps

## Sensitivity of Modeled Assumptions

Increase (decrease) in fair value due to increase in projected loss percentage from currently performing collateral <sup>4</sup>	25%	\$(1.4 )	\$(12.4 )
	50%	(2.3 )	(15.8 )
	100%	(4.2 )	(22.8 )
Increase (decrease) in fair value due to increase in projected loss percentage from currently performing collateral <sup>4</sup> and the immediate default	25%	\$(2.5 )	\$(20.3 )



of all deferring collateral with no recovery	50%	(3.4 )	(23.9 )
	100%	(5.3 )	(31.2 )
Increase (decrease) in fair value due to increase in discount rate	+100 bps	\$(6.0 )	\$(53.0 )
	+200 bps	(10.7 )	(91.5 )
Increase (decrease) in fair value due to increase in forward LIBOR curve	+100 bps	\$1.8	\$5.4
Increase (decrease) in fair value due to:			
increase in prepayment assumption <sup>5</sup>	+1%	\$—	\$7.4
increase in prepayment assumption <sup>6</sup>	+2%	0.6	23.1

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

- 1 The Company uses an incurred credit loss model which specifies cumulative losses at the 1-year, 5-year, and 30-year points from the date of valuation. These current and projected losses are reflected in the CDO's fair value. Weighted average percentage of collateral that is defaulted due to bank failures, or deferring payment as allowed
- 2 under the terms of the security, including a 0% recovery rate on defaulted collateral and a credit-specific probability of default on deferring collateral which ranges from 2.18% to 100%.
- 3 The discount rate is a spread over the forward LIBOR curve at the date of valuation. Percentage increase is applied to incremental projected loss percentages from currently performing collateral. For
- 4 example, the 50% and 100% stress scenarios for AFS securities would result in cumulative 30-year losses of 46.4% = 40.4%+50% (0.3%+1.5%+10.1%) and 52.3% = 40.4%+100% (0.3%+1.5%+10.1%), respectively.
- 5 Prepayment rate for small banks increased to 6.5% per year for the first 1.5 years and to 4% per year thereafter through maturity.
- 6 Prepayment rate for small banks increased to 7.5% per year for the first 1.5 years and to 5% per year thereafter through maturity.

During the first quarter, the market level discount rates applicable to bank and insurance CDOs declined and fair values rose. The discount rate, or credit spread, in the above sensitivity analysis of valuation assumptions is approximately 14 bps lower than that used at March 31, 2013 for the same securities.

**Bank Collateral Deferral Experience**

The Company's loss and recovery experience on defaults as of June 30, 2014 (and our Level 3 modeling assumption) is essentially a 100% loss on defaulted bank collateral in CDOs, although we have, to date, received several, generally small, recoveries on a few defaults. Securities sales during 2013 and 2014 year to date resulted in the Company reducing its exposure to some unresolved deferring banks. At June 30, 2014, the Company had exposure to 78 deferring issuers of which 68 were in their initial deferral period and ten were redeferrals. We continue to expect that future losses on these deferrals may result from actions other than bank failures – primarily holding company bankruptcies and debt restructurings.

A significant number of previous deferrals have resumed interest payments; 138 issuing banks have either come current and resumed interest payments on their trust preferred securities or have announced they intend to do so at the next payment date. Banks may come current on their trust preferred securities for one or more quarters and then redefer. Such redeferral has occurred in 10 of the 78 banks that are currently deferring. Further information on the Company's valuation process is detailed in Note 10 of the Notes to Consolidated Financial Statements.

The following schedule provides additional information on the below-investment-grade rated bank and insurance trust preferred CDOs' portions of the AFS and HTM portfolios. The schedule reflects data and assumptions that are included in the calculations of fair value and OTTI. The schedule utilizes the lowest rating assigned by any rating agency to identify those securities below investment grade. The schedule segments the securities by whether or not they have been determined to have credit-related OTTI, and by original ratings level to provide granularity on the seniority level of the securities and the distribution of unrealized losses.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## BANK AND INSURANCE TRUST PREFERRED CDO VALUES CURRENTLY RATED BELOW-INVESTMENT-GRADE –SORTED BY WHETHER CREDIT RELATED OTTI HAS BEEN TAKEN AND BY ORIGINAL RATINGS

At June 30, 2014

(Dollar amounts in millions)	Number of securities	% of portfolio	Total		Amortized cost	Estimated fair value	Unrealized gain (loss)	Credit OTTI loss		Valuation losses <sup>1</sup>
			Par value					Current year	Life-to-date	Life-to-date
Original ratings of securities, no credit OTTI recognized:										
Original AAA	16	44.8	% \$462	\$ 418	\$ 325	\$ (93 )	\$—	\$—	—	—
Original A	1	1.2	12	12	10	(2 )	—	—	—	—
Original BBB	1	2.9	30	29	30	1	—	—	(1 )	(1 )
Total Non-OTTI		48.9	504	459	365	(94 )	—	—	(62 )	(62 )
Original ratings of securities, credit OTTI recognized:										
Original AAA	1	4.9	50	43	30	(13 )	—	(5 )	(2 )	(2 )
Original A	24	43.8	452	307	233	(74 )	—	(143 )	—	—
Original BBB	1	2.4	25	—	—	—	—	(25 )	—	—
Total OTTI		51.1	527	350	263	(87 )	—	(173 )	(2 )	(2 )
Total below-investment-grade bank and insurance CDOs		100.0	% \$1,031	\$ 809	\$ 628	\$ (181 )	\$—	—	—	—

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

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

We review investments in debt securities each quarter for the presence of OTTI. For our bank and insurance CDO securities, we use an internal income-based cash flow model which produces a loss-adjusted expected cash flow for the security. The presence of OTTI is identified and the amount of the credit component of OTTI is calculated by discounting this loss-adjusted cash flow at the security-specific effective interest rate and comparing that value to the Company's amortized cost of the security.

We review the relevant facts and circumstances each quarter to assess our intentions regarding any potential sales of securities, as well as the likelihood that we would be required to sell prior to recovery of amortized cost for AFS securities and prior to maturity for HTM securities. At June 30, 2014, for each AFS security whose fair value is below amortized cost, we have determined that we do not intend to sell the security, and that it was not more likely than not we will be required to sell the security before recovery of its amortized cost basis.

At June 30, 2014, no credit-related impairment was identified. We evaluate the difference between the fair value and the amortized cost of each security and identify if any of the difference is due to credit. The credit component of the difference is recognized by writing down the amortized cost of each security found to have OTTI.

## Exposure to State and Local Governments

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

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

The following schedule summarizes the Company's exposure to state and local municipalities.

## MUNICIPALITIES

(In millions)	June 30, 2014	December 31, 2013
Loans and leases	\$522	\$449
Held-to-maturity – municipal securities	576	551
Available-for-sale – municipal securities	189	66
Available-for-sale – auction rate securities	7	7
Trading account – municipal securities	40	27
Unused commitments to extend credit	11	17
Total direct exposure to municipalities	\$1,345	\$1,117

At June 30, 2014, two municipalities had \$9 million of loans that were on nonaccrual. A significant amount of the municipal loan and lease portfolio is secured by real estate and equipment, and approximately 91% of the outstanding credits were originated by Zions Bank, CB&T, Amegy, and Vectra. See Note 6 of the Notes to Consolidated Financial Statements for additional information about the credit quality of these municipal loans.

All municipal securities are reviewed quarterly for OTTI; see Note 5 of the Notes to Consolidated Financial Statements for more information. HTM securities consist of unrated bonds issued by small local government entities and are purchased through private placements, often in situations in which one of the Company's subsidiaries has acted as a financial advisor to the municipality. Prior to purchase, the issuers of municipal securities are evaluated by the Company for their creditworthiness, and some of the securities are guaranteed by third parties. Of the AFS municipal securities, 96% are rated by major credit rating agencies and were rated investment grade as of June 30, 2014.

Municipal securities in the trading account are held for resale to customers. The Company also underwrites municipal bonds and sells most of them to third party investors.

## Foreign Exposure

The Company has de minimis credit exposure to foreign sovereign risks and does not believe its total foreign credit exposure is material.

The Company canceled its Total Return Swap ("TRS") with Deutsche Bank AG ("DB") effective April 28, 2014 due to the removal, mostly through sale, of over half of the CDOs originally covered by the TRS. See "Noninterest Income" on page 67 and Note 7 of the Notes to Consolidated Financial Statements for additional information. As a result of the cancellation, the TRS derivative liability was extinguished at June 30, 2014, and the Company's regulatory risk weighted assets increased by approximately \$0.9 billion at June 30, 2014.

## Loan Portfolio

As displayed in the following schedule, commercial and industrial loans were the largest category and constituted 32.3% of the Company's loan portfolio at June 30, 2014. Construction and land development loans were 5.9% and 5.6% of total loans at June 30, 2014 and December 31, 2013, respectively. Construction and land development loans continue to remain significantly lower than pre-recession levels of 20.1% of total loans at the end of 2007.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## LOAN PORTFOLIO DIVERSIFICATION

(Amounts in millions)	June 30, 2014		December 31, 2013		
	Amount	% of total loans	Amount	% of total loans	
Commercial:					
Commercial and industrial	\$12,805	32.3	% \$12,481	32.0	%
Leasing	415	1.1	388	1.0	
Owner occupied	7,387	18.6	7,437	19.0	
Municipal	522	1.3	449	1.2	
Total commercial	21,129	53.3	20,755	53.2	
Commercial real estate:					
Construction and land development	2,340	5.9	2,183	5.6	
Term	7,969	20.1	8,006	20.5	
Total commercial real estate	10,309	26.0	10,189	26.1	
Consumer:					
Home equity credit line	2,204	5.6	2,133	5.5	
1-4 family residential	4,827	12.2	4,737	12.1	
Construction and other consumer real estate	338	0.9	325	0.8	
Bankcard and other revolving plans	376	0.9	356	0.9	
Other	196	0.5	198	0.5	
Total consumer	7,941	20.1	7,749	19.8	
FDIC-supported/PCI loans <sup>1</sup>	251	0.6	350	0.9	
Total net loans	\$39,630	100.0	% \$39,043	100.0	%

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

As of June 30, 2014, total net loans and leases were \$39.6 billion compared to \$39.0 billion at December 31, 2013. Most of the loan portfolio growth during the first six months of 2014 occurred in commercial and industrial, 1-4 family residential, and commercial real estate construction and home equity credit line loans. The impact of these increases was partially offset by declines in commercial owner occupied and FDIC-supported/PCI loans. The loan portfolio increased primarily at Zions Bank, Amegy, and CB&T, while balances declined at NBAZ.

Commercial and industrial, 1-4 family residential, commercial real estate construction, and home equity credit line loan balances grew in part due to reduced volume of prepayments. Commercial owner occupied loans declined mostly due to strategic runoff and attrition of the National Real Estate loan portfolio at Zions Bank. We expect commercial real estate construction loan balances to increase at a modest rate over the next several quarters. The balance of FDIC-supported/PCI loans declined mainly due to paydowns and payoffs, and the fact that the Company has not purchased additional loans with FDIC loss sharing coverage since 2009. During 2014, the FDIC-supported loan loss share agreements will expire, with the exception of coverage for a small amount of residential mortgage loans. See Note 6 of the Notes to Consolidated Financial Statements for additional information regarding FDIC-supported/PCI loans and loss share agreements.

## Other Noninterest-Bearing Investments

The following schedule sets forth the Company's other noninterest-bearing investments.

## OTHER NONINTEREST-BEARING INVESTMENTS

(In millions)	June 30, 2014	December 31, 2013
Bank-owned life insurance	\$473	\$466
Federal Home Loan Bank stock	104	105
Federal Reserve stock	120	121

SBIC investments	62	61
Non-SBIC investment funds and other	96	103
	\$855	\$856

77

---

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

See “Market Risk – Equity Investments” on page 89 for additional information on the impact of the Dodd Frank Act on the non-SBIC investments.

Premises and Equipment

Premises and equipment increased \$77 million during the first six months of 2014, due primarily to the acquisition in the first quarter of land to develop a new corporate facility for the Company’s Amegy Bank subsidiary in Texas, and additionally from the capitalization of eligible costs related to the development of the Company’s new lending, deposit and reporting systems.

Deposits

Deposits, both interest-bearing and noninterest-bearing, are a primary source of funding for the Company. Average total deposits for the first six months of 2014 increased by 2.1%, compared to the same prior year period, with average interest-bearing deposits increasing by 2.0% and average noninterest-bearing deposits increasing by 8.4%. The increase in noninterest-bearing deposits was largely driven by increased deposits from business customers. The average interest rate paid for interest-bearing deposits was 4 bps lower during the first six months of 2014 than in the comparable prior year period.

Core deposits at June 30, 2014, which exclude time deposits larger than \$100,000 and brokered deposits, decreased by 1.5%, or \$665 million, from December 31, 2013. The decrease was mainly due to a decline in money market investments which was largely driven by an affiliate bank’s decision not to bid to renew the deposit of a large institutional customer. The Company also experienced a reduction in foreign deposits as a result of closing some Cayman Islands operations. These foreign deposits were transferred into domestic savings and interest bearing deposit accounts. Demand and savings and money market deposits comprised 94.0% of total deposits at June 30, 2014, compared with 90.1% at December 31, 2013.

During the first six months of 2014 and throughout 2013, the Company maintained a low level of brokered deposits with the primary purpose of keeping that funding source available in case of a future need. At June 30, 2014, total deposits included \$59 million of brokered deposits and \$29 million at December 31, 2013.

See “Liquidity Risk Management” on page 90 for additional information on funding and borrowed funds.

RISK ELEMENTS

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

Credit Risk Management

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

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





Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

The Company's credit risk management strategy includes diversification of its loan portfolio. The Company attempts to avoid the risk of an undue concentration of credits in a particular collateral type or with an individual customer or counterparty. The Company has adopted and adheres to concentration limits on various types of CRE lending, particularly construction and land development lending, leveraged lending, municipal lending, and lending to the energy sector. All of these limits are continually monitored and revised as necessary. These concentration limits, particularly with regard to various categories of CRE and real estate development, are materially lower than they were in 2007 and 2008, just prior to the emergence of the recent economic downturn. Recently, the Company has determined to further reduce construction and land development loan commitments; this has been done largely as a result of the modeled losses by both the Company's and the Federal Reserve's stress testing, under the severely adverse economic scenarios, as required under the Dodd-Frank Act. The majority of the Company's business activity is with customers located within the geographical footprint of its subsidiary banks.

The credit quality of the Company's loan portfolio remained strong during the first six months of 2014. Nonperforming lending-related assets at June 30, 2014 decreased by 16.2% and 37.0% from December 31, 2013, and June 30, 2013, respectively, and the classified loan portfolio decreased 5.4% from the previous quarter.

A more comprehensive discussion of our credit risk management is contained in the Company's 2013 Annual Report on Form 10-K.

**FDIC-Supported/PCI Loans**

The Company's loan portfolio includes loans that were acquired from failed banks in 2009: Alliance Bank, Great Basin Bank, and Vineyard Bank. These loans include nonperforming loans and other loans with characteristics indicative of a high credit risk profile. Substantially all of these loans were covered under loss sharing agreements with the FDIC for which the FDIC generally assumed 80% of losses up to a specified threshold and 95% of losses above that threshold. As shown in the following schedule, the loss sharing agreements expire on various dates during 2014. The Company does not expect total losses to exceed the higher threshold because acquired loans have performed better than originally expected. FDIC-supported/PCI loans represented 0.6% and 0.9% of the Company's total loan portfolio at June 30, 2014 and December 31, 2013, respectively. Refer to Note 6 of the Notes to Consolidated Financial Statements for more information.

**NET LOSSES COVERED BY FDIC LOSS SHARING AGREEMENTS**

(In millions)	Inception through June 30, 2014 Total actual net losses	Threshold	Agreement expiration
Alliance Bank	\$163	\$275	March 31, 2014
Great Basin Bank	11	40	June 30, 2014
Vineyard Bank	182	465	September 30, 2014

\$356

\$780

79

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## Government Agency Guaranteed Loans

The Company participates in various guaranteed lending programs sponsored by U.S. government agencies, such as the Small Business Administration, Federal Housing Authority, Veterans' Administration, Export-Import Bank of the U.S., and the U.S. Department of Agriculture. As of June 30, 2014, the principal balance of these loans was \$572 million, and the guaranteed portion was approximately \$436 million. Most of these loans were guaranteed by the Small Business Administration.

The following schedule presents the composition of government agency guaranteed loans, excluding FDIC-supported/PCI loans.

## GOVERNMENT GUARANTEES

(Amounts in millions)	June 30, 2014	Percent guaranteed	December 31, 2013	Percent guaranteed
Commercial	\$551	76 %	\$552	75 %
Commercial real estate	17	77	17	76
Consumer	4	100	4	100
Total loans excluding FDIC-supported/PCI loans	\$572	76	\$573	76

## Commercial Lending

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

## COMMERCIAL LENDING BY INDUSTRY GROUP

(Amounts in millions)	June 30, 2014		December 31, 2013	
	Amount	Percent	Amount	Percent
Real estate, rental and leasing	\$3,100	14.7 %	\$2,937	14.1 %
Manufacturing	2,257	10.7	2,181	10.5
Mining, quarrying and oil and gas extraction	2,253	10.7	2,205	10.6
Retail trade	1,768	8.4	1,737	8.4
Wholesale trade	1,496	7.1	1,464	7.1
Healthcare and social assistance	1,222	5.8	1,211	5.8
Transportation and warehousing	1,197	5.6	1,074	5.2
Construction	1,135	5.4	925	4.5
Finance and insurance	911	4.3	1,168	5.6
Professional, scientific and technical services	875	4.1	928	4.5
Accommodation and food services	823	3.9	799	3.8
Other <sup>1</sup>	4,092	19.3	4,126	19.9
Total	\$21,129	100.0 %	\$20,755	100.0 %

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

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## Commercial Real Estate Loans

Selected information indicative of credit quality regarding our CRE loan portfolio is presented in the following schedule.

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

(Amounts in millions)

Loan type	As of date	Collateral Location										Total	% of total CRE	
		Arizona	Northern California	Southern California	Nevada	Colorado	Texas	Utah/Idaho	Wash-in	Other <sup>1</sup>				
<b>Commercial term</b>														
Balance outstanding	6/30/2014	\$1,107	\$698	\$2,060	\$590	\$447	\$1,053	\$1,063	\$263	\$688	\$7,969	77.3		
% of loan type		13.9 %	8.8 %	25.9 %	7.4 %	5.6 %	13.2 %	13.3 %	3.3 %	8.6 %	100.0 %			
<b>Delinquency rates<sup>2</sup>:</b>														
30-89 days	6/30/2014	0.2	0.9 %	— %	0.3 %	— %	0.4 %	— %	— %	0.3 %	0.2 %			
	12/31/2013	0.3	— %	0.2 %	0.7 %	— %	0.2 %	0.1 %	— %	0.4 %	0.2 %			
≥ 90 days	6/30/2014	0.3	0.4 %	0.2 %	— %	— %	0.3 %	0.5 %	— %	1.2 %	0.4 %			
	12/31/2013	—	0.5 %	0.4 %	— %	— %	0.3 %	0.1 %	— %	0.5 %	0.2 %			
<b>Accruing loans past due 90 days or more</b>														
	6/30/2014	\$—	\$—	\$4	\$—	\$—	\$—	\$1	\$—	\$1	\$6			
	12/31/2013	—	1	5	—	—	—	—	—	—	6			
<b>Nonaccrual loans</b>														
	6/30/2014	5	5	10	2	3	3	5	1	10	44			
	12/31/2013	7	4	13	8	1	7	6	1	13	60			
<b>Residential construction and land development</b>														
Balance outstanding	6/30/2014	\$55	\$27	\$273	\$7	\$36	\$231	\$93	\$16	\$16	\$754	7.3		
% of loan type		7.3 %	3.7 %	36.2 %	0.9 %	4.8 %	30.6 %	12.3 %	2.1 %	2.1 %	100.0 %			
<b>Delinquency rates<sup>2</sup>:</b>														
30-89 days	6/30/2014	—	— %	— %	— %	— %	— %	— %	— %	— %	— %			
	12/31/2013	1.0	— %	— %	— %	0.4 %	— %	— %	— %	— %	0.1 %			
≥ 90 days	6/30/2014	—	— %	0.1 %	— %	— %	2.5 %	— %	— %	— %	0.8 %			
	12/31/2013	—	— %	0.1 %	— %	— %	3.0 %	0.2 %	— %	— %	0.9 %			
<b>Accruing loans past due 90 days or more</b>														
	6/30/2014	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—			
	12/31/2013	—	—	—	—	—	—	—	—	—	—			
<b>Nonaccrual loans</b>														
	6/30/2014	—	—	—	—	—	8	—	—	—	8			
	12/31/2013	1	—	—	—	—	9	—	—	—	10			
<b>Commercial construction and land development</b>														
	6/30/2014	\$61	\$83	\$332	\$81	\$119	\$438	\$364	\$42	\$66	\$1,586	15.7		

Balance outstanding												
% of loan type		3.8	% 5.3	% 20.9	% 5.1	% 7.5	% 27.6	% 23.0	% 2.6	% 4.2	% 100	%
Delinquency rates <sup>2</sup> :												
30-89 days	6/30/2014	—	% —	% —	% —	% —	% 0.1	% —	% —	% —	% —	%
	12/31/2013	0.7	% 0.8	% 0.5	% 4.9	% —	% 0.3	% —	% —	% —	% 0.6	%
≥ 90 days	6/30/2014	—	% —	% —	% —	% —	% 0.8	% —	% —	% —	% 0.2	%
	12/31/2013	—	% —	% —	% —	% —	% 1.5	% —	% —	% —	% 0.4	%
Accruing loans past due 90 days or more	6/30/2014	\$—	\$—	\$2	\$—	\$—	\$—	\$—	\$—	\$—	\$2	
	12/31/2013	—	—	—	—	—	—	—	—	—	—	
Nonaccrual loans	6/30/2014	—	—	—	—	—	4	12	—	—	16	
	12/31/2013	—	1	—	—	—	5	13	—	—	19	
Total construction and land development	6/30/2014	\$116	\$110	\$605	\$88	\$155	\$669	\$457	\$58	\$82	\$2,340	
Total commercial real estate	6/30/2014	\$1,223	\$808	\$2,665	\$678	\$602	\$1,722	\$1,520	\$321	\$770	\$10,309	100

<sup>1</sup>No other geography exceeds \$92 million for all three loan types.

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

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

Approximately 17% of the CRE term loans consist of mini-perm loans at June 30, 2014. For such loans, construction has been completed and the project has stabilized to a level that supports the granting of a mini-perm loan in accordance with our underwriting standards. Mini-perm loans generally have initial maturities of three to seven years. The remaining 83% of CRE loans are term loans with initial maturities generally of 5 to 20 years.

Approximately 14% of the commercial construction and land development portfolio at June 30, 2014 consists of acquisition and development loans. Most of these acquisition and development loans are secured by specific retail, apartment, office, or other projects. Underwriting on commercial properties is primarily based on the economic viability of the project with heavy consideration given to the creditworthiness and experience of the sponsor. We generally require that the owner's equity be injected prior to bank advances. Recognizing that debt is paid via cash flow, the projected cash flows of the project are key in the underwriting, because these determine the ultimate value of the property and its ability to service debt. Therefore, in most projects (with the exception of multifamily projects) we look for substantial pre-leasing in our underwriting and we generally require a minimum projected stabilized debt service coverage ratio of 1.20 or higher, depending on the project asset class. Heavy consideration is given to market acceptance of the product, location, strength of the developer, and the ability of the developer to stay within budget. Progress inspections by qualified independent inspectors are routinely performed before disbursements are made. Real estate appraisals are ordered and validated independently of the loan officer and the borrower, generally by each subsidiary bank's internal appraisal review function, which is staffed by licensed appraisers. In some cases, reports from automated valuation services are used. Appraisals are ordered from outside appraisers at the inception, renewal or, for CRE loans, upon the occurrence of any event causing a downgrade to a "criticized" or "classified" designation. The frequency for obtaining updated appraisals for these adversely graded credits is increased when declining market conditions exist.

Advance rates will vary based on the viability of the project and the creditworthiness of the sponsor, but the Company's guidelines generally limit advances to 50% for raw land, 65% for land development, 65% for finished commercial lots, 75% for finished residential lots, 80% for pre-sold homes, 75% for models and spec homes, and 75% for commercial properties. Exceptions may be granted on a case-by-case basis.

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

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

In general, we obtain and consider financial information for the guarantor as part of our underwriting decision to grant or extend credit. Complete underwriting of the guarantor includes, but is not limited to, an analysis of the guarantor's current financial statements, leverage, liquidity, global cash flow, global debt service coverage, contingent liabilities, etc. The assessment also includes a qualitative analysis of the guarantor's willingness to perform in the event of a problem and demonstrated history of performing in similar situations. Additional analysis may include personal financial statements, tax returns, liquidity (brokerage) confirmations and other reports, as appropriate.

A qualitative assessment is performed on a case-by-case basis to evaluate the guarantor's experience, performance track record, reputation, performance of other related projects with which we are familiar, and our relationship



Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

history with the guarantor. We also utilize market information sources, rating and scoring services in our assessment. This qualitative analysis coupled with a documented quantitative ability to support the loan may result in a higher-quality internal loan grade, which may reduce the level of allowance the Company estimates. Previous documentation of the guarantor's financial ability to support the loan is discounted if, at any point in time, there is any indication of a lack of willingness by the guarantor to support the loan.

In the event of default, we evaluate the pursuit of any and all appropriate potential sources of repayment, which may come from multiple sources, including the guarantee. A number of factors are considered when deciding whether or not to pursue a guarantor, including, but not limited to, the value and liquidity of other sources of repayment (collateral), the financial strength and liquidity of the guarantor, possible statutory limitations and the overall cost of pursuing a guarantee compared to the ultimate amount we may be able to recover otherwise.

Consumer Loans

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

The Company is engaged in home equity credit line ("HECL") lending. At June 30, 2014, the Company's HECL portfolio totaled \$2.2 billion. Approximately \$1.1 billion of the portfolio is secured by first deeds of trust, while the remaining \$1.1 billion is secured by junior liens.

As of June 30, 2014, loans representing approximately 5% of the outstanding balance in the HECL portfolio were estimated to have combined loan-to-value ratios ("CLTV") above 100%. An estimated CLTV ratio is the ratio of our loan plus any prior lien amounts divided by the estimated current collateral value. At origination, underwriting standards for the HECL portfolio generally include a maximum 80% CLTV with high credit scores at origination.

More than 97% of the Company's HECL portfolio is still in the draw period, and approximately 38% is scheduled to begin amortizing within the next five years; however, most of the loans are expected to be renewed for a second 10-year period after a satisfactory review of the borrower's credit history and ability to repay the loan. The Company regularly analyzes the risk of borrower default in the event of a loan becoming fully amortizing and the risk of higher interest rates. The Company currently believes its risk is minimal. The annualized credit losses for the HECL portfolio were 8 bps and 30 bps for the first six months of 2014 and 2013, respectively. See Note 6 of the Notes to Consolidated Financial Statements for additional information on the credit quality of this portfolio.

Nonperforming Assets

Nonperforming lending-related assets as a percentage of loans and leases and OREO decreased to 0.95% at June 30, 2014, compared with 1.15% at December 31, 2013 and 1.57% at June 30, 2013.

Total nonaccrual loans, excluding FDIC-supported/PCI loans, at June 30, 2014 decreased by \$53 million and \$166 million from December 31, 2013 and June 30, 2013, respectively. The decrease is primarily due to decreases in commercial and industrial loans, commercial owner occupied loans, and commercial real estate term loans. The largest total decreases in nonaccrual loans occurred at Zions Bank, Amegy and NBAZ.



The balance of nonaccrual loans can decrease due to paydowns, charge-offs, and the return of loans to accrual status under certain conditions. If a nonaccrual loan is refinanced or restructured, the new note is immediately placed on nonaccrual. If a restructured loan performs under the new terms for at least a period of six months, the loan can be considered for return to accrual status. See “Restructured Loans” on page 84 for more information. Company policy

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

does not allow for the conversion of nonaccrual construction and land development loans to commercial real estate term loans. See Note 6 of the Notes to Consolidated Financial Statements for more information.

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

## NONPERFORMING LENDING-RELATED ASSETS

(Amounts in millions)	June 30, 2014	December 31, 2013		
Nonaccrual loans <sup>1</sup>	\$349	\$402		
Other real estate owned	27	43		
Nonperforming lending-related assets, excluding FDIC-supported/PCI assets	376	445		
FDIC-supported/PCI nonaccrual loans	2	4		
FDIC-supported/PCI other real estate owned	1	3		
FDIC-supported/PCI nonperforming lending-related assets	3	7		
Total nonperforming lending-related assets	\$379	\$452		
Ratio of nonperforming lending-related assets to net loans and leases <sup>1</sup> and other real estate owned	0.95	% 1.15		%
Accruing loans past due 90 days or more, excluding FDIC-supported/PCI loans	\$14	\$10		
FDIC-supported/PCI loans past due 90 days or more	33	30		
Ratio of accruing loans past due 90 days or more to loans and leases <sup>1</sup>	0.12	% 0.10		%
Nonaccrual loans and accruing loans past due 90 days or more	\$398	\$447		
Ratio of nonaccrual loans and accruing loans past due 90 days or more to loans and leases <sup>1</sup>	1.00	% 1.14		%
Accruing loans past due 30 - 89 days, excluding FDIC-supported/PCI loans	\$101	\$105		
FDIC-supported/PCI loans past due 30 - 89 days	7	12		
Classified loans, excluding FDIC-supported/PCI loans	1,226	1,240		

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

## Restructured Loans

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

For certain TDRs, we split the loan into two new notes – an “A” note and a “B” note. The A note is structured to comply with our current lending standards at current market rates, and is tailored to suit the customer's ability to make timely principal and interest payments. The B note includes the granting of the concession to the borrower and varies by situation. We may defer principal and interest payments until the A note has been paid in full. At the time of restructuring, the A note is identified and classified as a TDR. The B note is charged-off but the obligation is not forgiven to the borrower, and any payments collected on the B notes are accounted for as recoveries. The outstanding carrying value of loans restructured using the A/B note strategy was approximately \$117 million and \$126 million at June 30, 2014, and December 31, 2013, respectively.



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

## ACCRUING AND NONACCRUING TROUBLED DEBT RESTRUCTURED LOANS

(In millions)	June 30, 2014	December 31, 2013
Restructured loans – accruing	\$320	\$345
Restructured loans – nonaccruing	103	136
Total	\$423	\$481

In the periods following the calendar year in which a loan was restructured, a loan may no longer be reported as a TDR if it is on accrual, is in compliance with its modified terms, and yields a market rate (as determined and documented at the time of the modification or restructure). Company policy requires that the removal of TDR status be approved at the same management level that approved the upgrading of a loan's classification. See Note 6 of the Notes to Consolidated Financial Statements for additional information regarding TDRs.

## TROUBLED DEBT RESTRUCTURED LOANS ROLLFORWARD

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Balance at beginning of period	\$449	\$610	\$481	\$623
New identified TDRs and principal increases	40	36	54	94
Payments and payoffs	(39)	(82)	(72)	(134)
Charge-offs	(1)	(4)	(2)	(7)
No longer reported as TDRs	(14)	—	(25)	(3)
Sales and other	(12)	(12)	(13)	(25)
Balance at end of period	\$423	\$548	\$423	\$548

## Other Nonperforming Assets

In addition to lending-related nonperforming assets, the Company had \$24 million in carrying value (\$17 million at amortized cost) of investments in debt securities (primarily bank and insurance company CDOs) that were on nonaccrual status at June 30, 2014, compared to \$224 million in carrying value (\$239 million at amortized cost) at December 31, 2013, and \$141 million and \$318 million at June 30, 2013, respectively.

## Allowance and Reserve for Credit Losses

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



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

## SUMMARY OF LOAN LOSS EXPERIENCE

(Amounts in millions)	Six Months Ended June 30, 2014	Twelve Months Ended December 31, 2013	Six Months Ended June 30, 2013		
Loans and leases outstanding (net of unearned income)	\$39,630	\$39,043	\$38,188		
Average loans and leases outstanding (net of unearned income)	\$39,336	\$38,107	\$37,786		
Allowance for loan losses:					
Balance at beginning of period	\$746	\$896	\$896		
Provision charged against earnings	(55 )	(87 )	(51 )		
Adjustment for FDIC-supported/PCI loans	(1 )	(11 )	(8 )		
Charge-offs:					
Commercial	(26 )	(76 )	(37 )		
Commercial real estate	(11 )	(26 )	(14 )		
Consumer	(7 )	(29 )	(19 )		
Total	(44 )	(131 )	(70 )		
Recoveries:					
Commercial	19	41	22		
Commercial real estate	6	25	18		
Consumer	5	13	7		
Total	30	79	47		
Net loan and lease charge-offs	(14 )	(52 )	(23 )		
Balance at end of period	\$676	\$746	\$814		
Ratio of annualized net charge-offs to average loans and leases	0.07	% 0.14	% 0.12		%
Ratio of allowance for loan losses to net loans and leases, at period end	1.71	% 1.91	% 2.13		%
Ratio of allowance for loan losses to nonperforming loans, at period end	192.32	% 183.54	% 156.23		%
Ratio of allowance for loan losses to nonaccrual loans and accruing loans past due 90 days or more, at period end	169.73	% 166.97	% 144.04		%

The total ALLL declined during the second quarter of 2014 due to continued improvements in portfolio-specific credit quality metrics and sustained improvement in broader economic and credit quality indicators. Recent and historic periods are weighted the same when determining historical loss factors. The quantitative basis for the ALLL declined in aggregate across the Company during the second quarter of 2014 due to lower quantitative loss factors and improvements in credit quality metrics. The portion of the ALLL related to qualitative and environmental factors decreased slightly in aggregate across the Company to reflect sustained improvements in broader economic and credit quality indicators.

The reserve for unfunded lending commitments represents a reserve for potential losses associated with off-balance sheet commitments and standby letters of credit. The reserve is separately shown in the Company's balance sheet and any related increases or decreases in the reserve are shown separately in the statement of income. The reserve

increased by \$5.8 million from December 31, 2013, and decreased \$8.6 million from June 30, 2013.

See Note 6 of the Notes to Consolidated Financial Statements for additional information related to the allowance for credit losses and credit trends experienced in each portfolio segment.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

Interest Rate and Market Risk Management

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

The Company's Board of Directors is responsible for approving the overall policies relating to the management of the financial risk of the Company, including interest rate and market risk management. In addition, the Board establishes and periodically revises policy limits and reviews limit exceptions reported by management. The Board has established the Asset/Liability Committee ("ALCO") consisting of members of management, to which it has delegated the responsibility of managing interest rate and market risk for the Company.

Interest Rate Risk

Interest rate risk is one of the most significant risks to which the Company is regularly exposed. In general, our goal in managing interest rate risk is to have the net interest margin increase slightly in a rising interest rate environment. We refer to this goal as being slightly "asset-sensitive." This approach is based on our belief that in a rising interest rate environment, the market cost of equity, or implied rate at which future earnings are discounted, would also tend to rise. The asset sensitivity of the Company's balance sheet changed minimally during 2013 and the first six months of 2014.

Due to the low level of rates and the natural lower bound of zero for market indices, there is limited sensitivity to falling rates at the current time. However, if interest rates remain at their current historically low levels, given the Company's asset sensitivity, it expects its net interest margin to be under continuing modest pressure assuming a stable balance sheet. If interest rates remain stable, this pressure may lead to a reduction in net interest income, unless its impact is offset by sufficient loan growth, interest rate swaps, securities purchases, or other means.

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

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

MVE is calculated as the fair value of all assets and derivative instruments minus the fair value of liabilities. We report changes in the dollar amount of MVE for parallel shifts in interest rates.

Due to embedded optionality and asymmetric rate risk, changes in MVE can be useful in quantifying risks not apparent for small rate changes. Examples of such risks may include out-of-the-money caps on loans, which have little effect for small rate movements but may become important if larger rate shocks were to occur, or substantial prepayment deceleration for low rate mortgages in a higher rate environment.



The Company's policy is generally to limit declines in MVE to 4% per 100 bps movement in interest rates in either direction. Changes or exceptions to the MVE limits are subject to notification and approval by the Risk Oversight Committee of the Company's Board of Directors.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

The estimated MVE and income simulation results are highly sensitive to the assumptions used for deposits that do not have specific maturities, such as checking and savings and money market accounts, and also to prepayment assumptions used for loans with prepayment options. Given the uncertainty of these estimates, we view both the MVE and the income simulation results as falling within a wide range of possibilities. Management uses historical regression analysis as a guide to setting such assumptions; however, due to the current low interest rate environment, which has little historical precedent, estimated deposit durations may not reflect actual future results. Even modest variation of such assumptions may have significant impact on the calculation of income simulation and market value of equity shown below. These assumptions are as follows:

## REPRICING SCENARIO ASSUMPTIONS BY DEPOSIT PRODUCT

Product	As of June 30, 2014				
	Fast		Slow		
	Effective duration (base)	Effective duration (+200 bps)	Effective duration (base)	Effective duration (+200 bps)	
Demand deposits	1.65	% 1.82	% 2.54	% 2.88	%
Money market	0.78	% 0.74	% 1.16	% 1.10	%
Savings and interest on checking	2.93	% 2.79	% 3.79	% 3.03	%

Note: Effective duration measures the percent change in MVE for a 100 bps parallel shift in rates as compared to the Macaulay Duration, which measures weighted average life of cash flows in years and is not reported. The Company's Demand Deposit Model assumes significant negative convexity in the current low rate environment.

As of the dates indicated, the following schedule shows the Company's percentage change in interest rate sensitive income, based on a static balance sheet, in the first year after the rate change if interest rates were to sustain immediate parallel changes ranging from -100 bps to +300 bps. The Company estimates interest rate risk with two sets of deposit repricing scenarios.

The first scenario assumes that administered-rate deposits (money market, interest-earning checking, and savings) reprice at a faster speed in response to changes in interest rates. Additionally, interest rates cannot decline below zero. At December 31, 2013 and 2012, interest rates were at such a low level that repricing scenarios assuming -100 bps rate shocks produced negative results.

The second scenario assumes that those deposits reprice at a slower speed. For larger rate shocks, e.g., +300 bps, models reflecting consumer behavior in regards to both loan prepayments and deposit run-off are inherently prone to increased model uncertainty.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## INCOME SIMULATION – CHANGE IN INTEREST RATE SENSITIVE INCOME

Repricing scenario	As of June 30, 2014						
	-100 bps		+100 bps		+200 bps	+300 bps	
Fast	(2.9	)%	5.7	%	11.6	% 17.3	%
Slow	(3.0	)%	6.9	%	14.0	% 20.9	%
Repricing scenario	As of December 31, 2013						
	-100 bps		+100 bps		+200 bps	+300 bps	
Fast	(2.8	)%	5.7	%	12.0	% 18.1	%
Slow	(2.9	)%	7.0	%	14.5	% 21.8	%

The following schedule includes changes in the MVE from -100 bps to +300 bps parallel rate moves for both “fast” and “slow” scenarios.

## CHANGES IN MARKET VALUE OF EQUITY

Repricing scenario	As of June 30, 2014						
	-100 bps		+100 bps		+200 bps	+300 bps	
Fast	(0.1	)%	2.0	%	4.0	% 4.9	%
Slow	(3.7	)%	7.1	%	14.3	% 19.8	%
Repricing scenario	As of December 31, 2013						
	-100 bps		+100 bps		+200 bps	+300 bps	
Fast	0.6	%	1.1	%	2.6	% 3.3	%
Slow	(3.5	)%	6.2	%	13.0	% 18.4	%

## Market Risk – Fixed Income

The Company engages in the underwriting and trading of municipal securities. This trading activity exposes the Company to a risk of loss arising from adverse changes in the prices of these fixed income securities. At June 30, 2014, the Company had \$57 million of trading assets and \$11 million of securities sold, not yet purchased, compared with \$35 million and \$74 million, at December 31, 2013 and \$26 million and \$16 million at June 30, 2013, respectively.

The Company is exposed to market risk through changes in fair value. The Company is also exposed to market risk for interest rate swaps used to hedge interest rate risk. Changes in the fair value of AFS securities and in interest rate swaps that qualify as cash flow hedges are included in AOCI for each financial reporting period. During the second quarter of 2014, the after-tax change in AOCI attributable to AFS and HTM securities was an increase of \$6 million compared to a \$32 million increase in the same prior year period. The primary reason for the increase is the observed improvement in market values of trust preferred CDOs. If any of the AFS or HTM securities become other-than-temporarily impaired, the credit impairment is charged to operations. See “Investment Securities Portfolio” on page 70 for additional information on OTTI.

## Market Risk – Equity Investments

Through its equity investment activities, the Company owns both private and publicly traded equity securities. The Company owns equity securities in companies and governmental entities, e.g., Federal Reserve Bank and Federal Home Loan Banks, that are not publicly traded, and which are accounted for under cost, fair value, equity, or full

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

consolidation methods of accounting, depending upon the Company's ownership position and degree of involvement in influencing the investees' affairs. Regardless of the accounting method, the value of the Company's investment is subject to fluctuation. Since the fair value of these securities may fall below the Company's investment costs, the Company is exposed to the possibility of loss. Equity investments in private and public companies are approved, monitored and evaluated by the Company's Equity Investment Committee.

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

These private equity investments are subject to the provisions of the Dodd-Frank Act. The Volcker Rule of the Dodd-Frank Act, as published on December 10, 2013, prohibits banks and bank holding companies from holding private equity investments beyond July 2015, except for SBIC funds. The Company may apply for two one-year exceptions that would extend the disposal deadline to July 2017. As of June 30, 2014, such prohibited private equity investments, amounted to \$56 million. The Company currently does not believe that this divestiture requirement will have a material negative impact on the value of these investments. The Company's earnings from these investments, and the potential volatility of these earnings, are expected to decline over the next several years and will ultimately cease.

A more comprehensive discussion of the Company's interest rate and market risk management is contained in the Company's 2013 Annual Report on Form 10-K.

Liquidity Risk Management

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

Consolidated cash, interest-bearing deposits held as investments, and security resell agreements at the Parent and its subsidiaries decreased to \$7.8 billion at June 30, 2014 from \$9.5 billion at March 31, 2014 and \$9.3 billion at December 31, 2013. The \$1.5 billion decrease during the first six months of 2014 resulted primarily from (1) a decrease in deposits, (2) net loan originations, and (3) repayments of debt. These decreases were partially offset by (1) a decrease in investment securities and (2) net cash provided by operating activities.

Maturities of Long-Term Debt During Remainder of 2014

The Company's long-term debt maturities during the remaining six months of 2014 include:

(Amounts in millions)		June 30, 2014			
Entity	Description	Coupon rate	Carrying balance	Par amount	Maturity
Amegy	Subordinated note	3mL + 1.25%	\$75.0	\$75.0	September 22, 2014
Parent	Senior note	7.75%	240.6	242.3	September 23, 2014
			\$315.6	\$317.3	

For the remainder of 2014, the Company has optional early redemptions for \$44.3 million of long-term senior notes at June 30, 2014, consisting of \$17.4 million in August 2014 and \$26.9 million in November 2014. The Company has provided a notice of call for the notes in August 2014.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## Proposed Liquidity Regulation

In October 2013, U.S. banking regulators issued a Notice of Proposed Rulemaking that would implement a quantitative liquidity requirement in the U.S. generally consistent with the Liquidity Coverage Ratio (“LCR”) minimum liquidity measure established under the Basel III liquidity framework. Under the proposed rule, the Company would be subject to a modified LCR standard, which requires a financial institution to hold an adequate amount of unencumbered High Quality Liquid Assets (“HQLA”) that can be converted into cash easily and immediately in private markets to meet its liquidity needs for a short-term liquidity stress scenario.

The Basel III liquidity framework includes a second minimum liquidity measure, the Net Stable Funding Ratio (“NSFR”), which requires a financial institution to maintain a stable funding profile in relation to the characteristics of their on- and off-balance sheet activities. U.S. banking regulators have announced that they expect to issue proposed rulemaking to implement the NSFR. The Company is closely monitoring the development of the proposed liquidity ratios and the potential impact upon its liquidity and funding.

Beginning in January 2015, the Company will be required to conduct monthly liquidity stress tests. These tests will incorporate scenarios designed by the Company subject to review by the Federal Reserve.

## Parent Company Liquidity

The Parent’s cash requirements consist primarily of debt service, investments in and advances to subsidiaries, operating expenses, income taxes, and dividends to preferred and common shareholders. The Parent’s cash needs are usually met through dividends from its subsidiaries, interest and investment income, subsidiaries’ proportionate share of current income taxes, and long-term debt and equity issuances.

Cash and interest-bearing deposits held as investments at the Parent were \$953 million at June 30, 2014 compared to \$1,224 million at March 31, 2014 and \$903 million at December 31, 2013. The \$50 million increase during the first six months of 2014 was primarily the result of (1) dividends received from its subsidiaries, and (2) sales and paydowns of CDO securities. These increases were partially offset by (1) repayments of long-term debt, (2) interest payments on debt, and (3) the payment of preferred and common dividends.

Due to the Parent’s adequate level of cash and short-term investments, and the increase in these assets during the first six months of 2014, the Parent did not access cash in the capital markets. The primary uses of cash in the capital markets for the Parent during the first six months of 2014 were the repayment of senior notes totaling \$361 million. As previously shown under “Maturities of Long-Term Debt During Remainder of 2014,” the Parent has long-term debt maturities in 2014 and may also repay other higher-cost long-term debt prior to maturity during this same period. During the first six months of 2014, the Parent received common dividends and return of common equity totaling \$101 million and preferred dividends totaling \$20 million from its subsidiary banks. During the first six months of 2013, the Parent received \$198 million from its subsidiaries for common dividends and return of common equity, \$22 from preferred dividends, and \$50 million from the redemption of preferred stock issued to the Parent. The dividends that our subsidiary banks can pay to the Parent are restricted by current and historical earning levels, retained earnings, and risk-based and other regulatory capital requirements and limitations. During the first six months of 2014, all of the Company’s subsidiary banks recorded a profit, except TCBO, which operated at approximately break-even. We expect that this profitability will be sustained, thus permitting continued payments of dividends and/or returns of capital by the subsidiaries to the Parent during the remainder of 2014.

General financial market and economic conditions impact the Company’s access to, and cost of, external financing. Access to funding markets for the Parent and subsidiary banks is also directly affected by the credit ratings received from various rating agencies. The ratings not only influence the costs associated with the borrowings, but can also influence the sources of the borrowings. The debt ratings and outlooks issued by the various rating agencies for the Company did not change during the first six months of 2014. Standard & Poor’s, Fitch, Dominion Bond Rating Service (“DBRS”), and Kroll all rate the Company’s senior debt at an investment grade level, while Moody’s rates



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

the Company's senior debt as Ba1 (one notch below investment grade). In addition, all of the previously mentioned rating agencies, except Kroll, rate the Company's subordinated debt as noninvestment grade.

The following schedule presents the Parent's balance sheet as of June 30, 2014, December 31, 2013, and June 30, 2013.

## PARENT ONLY CONDENSED BALANCE SHEETS

(In thousands)	June 30, 2014	December 31, 2013	June 30, 2013
<b>ASSETS</b>			
Cash and due from banks	\$2,014	\$902,697	\$1,217,835
Interest-bearing deposits	950,802	72	69
Investment securities:			
Held-to-maturity, at adjusted cost (approximate fair value of \$33,467, \$31,422 and \$27,830)	17,322	17,359	19,272
Available-for-sale, at fair value	343,648	675,895	551,056
Loans, net of allowance for loan losses of \$0, \$0 and \$21	—	—	1,279
Other noninterest-bearing investments	33,319	37,154	43,076
Investments in subsidiaries:			
Commercial banks and bank holding company	6,861,445	6,700,315	6,709,707
Other operating companies	30,239	31,535	35,245
Nonoperating – ZMFU II, Inc! <sup>1</sup>	44,637	44,511	43,776
Receivables from subsidiaries:			
Other operating companies	10,060	—	5,000
Other assets	207,142	278,392	289,243
	\$8,500,628	\$8,687,930	\$8,915,558
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Other liabilities	\$117,930	\$200,729	\$133,311
Subordinated debt to affiliated trusts	15,464	15,464	15,464
Long-term debt:			
Due to affiliates	113	17	34
Due to others	1,667,031	2,007,157	1,906,417
Total liabilities	1,800,538	2,223,367	2,055,226
Shareholders' equity:			
Preferred stock	1,004,006	1,003,970	1,728,659
Common stock	4,192,136	4,179,024	4,167,828
Retained earnings	1,640,785	1,473,670	1,338,401
Accumulated other comprehensive loss	(136,837 )	(192,101 )	(374,556 )
Total shareholders' equity	6,700,090	6,464,563	6,860,332
	\$8,500,628	\$8,687,930	\$8,915,558

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

During the first six months of 2014 and 2013, the Parent's operating expenses included cash payments for interest of approximately \$53 million and \$69 million, respectively. Additionally, the Parent paid approximately \$48 million and \$59 million of dividends on preferred and common stock for the same periods.

At June 30, 2014, maturities of the Parent's long-term senior and subordinated debt ranged from September 2014 to September 2028.

**Subsidiary Bank Liquidity**

The subsidiary banks' primary source of funding is their core deposits, consisting of demand, savings and money market deposits, time deposits under \$100,000, and foreign deposits. At June 30, 2014, these core deposits, excluding brokered deposits, in aggregate, constituted 97.1% of consolidated deposits, compared with 97.2% at

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

March 31, 2014 and 97.1% at December 31, 2013. On a consolidated basis, the net loan to total deposit ratio was 86.8% at June 30, 2014 compared to 84.2% at both March 31, 2014 and December 31, 2013.

Total deposits decreased by \$691 million to \$45.7 billion at June 30, 2014 compared to \$46.4 billion at December 31, 2013, primarily due to a reduction of deposits from one large institutional customer. An affiliate bank chose not to bid to renew the deposit of a large institutional customer. The Company also experienced a reduction in foreign deposits as a result of closing some of its Cayman Islands operations. These foreign deposits were transferred to domestic savings and money market deposit accounts.

During the first six months of 2014, the subsidiary banks decreased their investment in interest-bearing deposits by \$1.8 billion.

The FHLB system and Federal Reserve Banks have been and are a source of back-up liquidity, and from time to time, have been a significant source of funding for each of the Company's subsidiary banks. Zions Bank, TCBW, and TCBO are members of the FHLB of Seattle. CB&T, NSB, and NBAZ are members of the FHLB of San Francisco. Vectra is a member of the FHLB of Topeka and Amegy Bank is a member of the FHLB of Dallas. The FHLB allows member banks to borrow against their eligible loans to satisfy liquidity and funding requirements. The subsidiary banks are required to invest in FHLB and Federal Reserve stock to maintain their borrowing capacity.

At June 30, 2014, the amount available for additional FHLB and Federal Reserve borrowings was approximately \$17.8 billion. Loans with a carrying value of approximately \$23.4 billion at June 30, 2014, \$23.5 billion at March 31, 2014, and \$23.0 billion at December 31, 2013, have been pledged at the Federal Reserve and various FHLBs as collateral for current and potential borrowings. The Company had approximately \$22 million of long-term borrowings outstanding with the FHLB at June 30, 2014, which was a slight decrease from \$23 million at December 31, 2013, and had no short-term FHLB or Federal Reserve borrowings outstanding, which also was unchanged from December 31, 2013. At June 30, 2014, the subsidiary bank's total investment in Federal Reserve stock was approximately \$104 million compared with \$105 million at both March 31, 2014 and December 31, 2013. The subsidiary banks' total investment in Federal Reserve stock was approximately \$120 million at June 30, 2014, compared with \$119 million at March 31, 2014 and \$121 million at December 31, 2013.

The Company's investment activities can provide or use cash, depending on the asset-liability management posture taken. During the first six months of 2014, investment securities' activities resulted in a net decrease in investment securities and a net \$343 million increase in cash compared with a net \$31 million decrease in cash for the first six months of 2013.

Maturing balances in our subsidiary banks' loan portfolios also provide additional flexibility in managing cash flows. Lending activity for the first six months of 2014 resulted in a net cash outflow of \$607 million compared to a net cash outflow of \$589 million for the first six months of 2013.

As previously disclosed in "Maturities of Long-Term Debt During Remainder of 2014," Amegy has a \$75 million subordinated note due in September 2014.

A more comprehensive discussion of our liquidity management is contained in the Company's 2013 Annual Report on Form 10-K.

Operational Risk Management

Operational risk is the risk to current or anticipated earnings or capital arising from inadequate or failed internal processes or systems, human errors or misconduct, or adverse external events. In its ongoing efforts to identify and manage operational risk, the Company has an Enterprise Risk Management department whose responsibility is to help employees, management and the Board to assess, understand, measure, monitor and manage risk in accordance with the Company's Risk Appetite Framework. We have documented both controls and the Control Self Assessment

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

related to financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 and the Federal Deposit Insurance Corporation Improvement Act of 1991.

To manage and minimize its operational risk, the Company has in place transactional documentation requirements; systems and procedures to monitor transactions and positions; systems and procedures to detect and mitigate attempts to commit fraud, penetrate the Company's systems or telecommunications, access customer data, and/or deny normal access to those systems to the Company's legitimate customers; regulatory compliance reviews; and periodic reviews by the Company's Internal Audit and Credit Examination departments. Reconciliation procedures have been established to ensure that data processing systems consistently and accurately capture critical data. Further, we maintain contingency plans and systems for operational support in the event of natural or other disasters. We also mitigate operational risk through the purchase of insurance, including errors and omissions and professional liability insurance.

Efforts are continually underway to improve the Company's oversight of operational risk, including enhancement of risk and control self assessments and antifraud measures, which are reported to the Operational Risk Committee, the Enterprise Risk Management Committee, and the Risk Oversight Committee of the Board. Late in 2013, the Company further improved operational risk management by creating and staffing the position of Director of Corporate Operational Risk, to better coordinate and oversee the Company's operational risk management. The number and sophistication of attempts to disrupt or penetrate the Company's critical systems, sometimes referred to as hacking, cyberfraud, cyberattacks, cyberterrorism, or other similar names, also continue to grow. On a daily basis, the Company, its customers, and other financial institutions are subject to a large number of such attempts. The Company has established systems and procedures to monitor, thwart or mitigate damage from such attempts, and usually these efforts have been successful. However, in some instances we, or our customers, have been victimized by cyberfraud (related losses to the Company have not been material), or some of our customers have been temporarily unable to routinely access our online systems as a result of, for example, distributed denial of service attacks.

CAPITAL MANAGEMENT

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

Total shareholders' equity increased by 3.6% from \$6.5 billion at December 31, 2013 to \$6.7 billion at June 30, 2014. The increase in total shareholders' equity is primarily due to \$220.8 million of net income and a \$55.1 million improvement in net unrealized losses on investment securities recorded in AOCI, partially offset by \$55.0 million of dividends recorded on preferred and common stock. The improvement in net unrealized losses on investment securities recorded during the first six months of 2014 was primarily the result of an increase in the fair value of investment securities, partially offset by the recognition in earnings of net fixed income securities gains on investment securities sold.

The Company has maintained its quarterly dividend on common stock at \$0.04 per share since the second quarter of 2013, which was an increase of \$0.03 per share from the \$0.01 per share paid during the first quarter of 2013. The Company paid \$14.9 million in dividends on common stock during the first six months of 2014 compared to \$9.2 million during the first six months of 2013. During its July 2014 meeting, the Board of Directors declared a dividend of \$0.04 per common share payable on August 28, 2014 to shareholders of record on August 21, 2014. The Company's resubmitted Capital Plan, discussed subsequently, also included the continued payment of preferred and common dividends at the current rates.

The Company recorded preferred stock dividends of \$40.1 million and \$50.0 million for the first six months of 2014 and 2013, respectively. Preferred stock dividends recorded in the first six months of 2014 included an accrual of \$7.0 million on preferred stock which will be paid in September 2014. The Company expects that preferred dividends recorded will be approximately \$16 million per quarter through the remainder of 2014.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

Banking organizations are required by capital regulations to maintain adequate levels of capital as measured by several regulatory capital ratios. The following schedule shows the Company's capital and performance ratios as of June 30, 2014, December 31, 2013, and June 30, 2013.

## CAPITAL RATIOS

	June 30, 2014		December 31, 2013		June 30, 2013	
Tangible common equity ratio	8.60	%	8.02	%	7.57	%
Tangible equity ratio	10.46	%	9.85	%	10.78	%
Average equity to average assets (three months ended)	12.26	%	11.20	%	12.11	%
Risk-based capital ratios:						
Tier 1 common	10.45	%	10.18	%	10.03	%
Tier 1 leverage	11.00	%	10.48	%	11.75	%
Tier 1 risk-based	13.00	%	12.77	%	14.30	%
Total risk-based	14.90	%	14.67	%	15.94	%
Return on average common equity (three months ended)	7.30	%	(4.51)	)%	4.35	%
Tangible return on average tangible common equity (three months ended)	9.07	%	(5.45)	)%	5.73	%

The Company's Tier 1 common equity ratio declined by 11 basis points during the second quarter of 2014, primarily due to the cancellation of the total return swap on its collateralized debt obligation portfolio. At June 30, 2014, regulatory Tier 1 risk-based capital and total risk-based capital were \$6.0 billion and \$6.8 billion, respectively, compared to \$5.8 billion and \$6.6 billion at December 31, 2013, and \$6.3 billion and \$7.1 billion at June 30, 2013, respectively.

A more comprehensive discussion of our capital management is contained in the Company's 2013 Annual Report on Form 10-K.

## Capital Plan and Stress Tests

The Company has an annual regulatory requirement to file a Capital Plan with the Federal Reserve based on the results of specified stress-testing and documented sound policies, processes, models, controls, and governance practices. The Capital Plan, which is reviewed by the Federal Reserve and is subject to its objection, governs all of the Company's capital actions for five quarters. A more comprehensive discussion about our Capital Plan and Stress Tests is contained in the Company's 2013 Annual Report on Form 10-K.

On July 25, 2014, the Federal Reserve announced that it has not objected to the Company's 2014 resubmitted Capital Plan. The post-stress Tier 1 common ratio was computed under the resubmitted plan at 5.1%, which exceeded the minimum 5.0% requirement. The Company's original 2014 Capital Plan did not meet this minimum requirement. The Company's resubmitted Capital Plan included the issuance of \$400 million of new common equity in the third quarter of 2014. However, the Company determined to increase this amount, and on July 28, 2014, the Company issued \$525 million of common stock, which consisted of approximately 17.6 million shares at a price of \$29.80 per share. Net of commissions and fees, this issuance added approximately \$516 million to common stock in the third quarter of 2014. In addition, the Company granted the underwriters a 30-day option to purchase up to an additional 15% of the amount of common stock offered, or approximately \$78.7 million of common stock. As of the date of this filing, the

underwriters had not exercised this option. On a pro forma basis, following the completion of this common stock offering, the Company's Tier 1 common equity ratio was approximately 11.6%.

The Company originally submitted its 2014 Capital Plan to the Federal Reserve on January 6, 2014. The Company subsequently notified the Federal Reserve of its intention to resubmit its Capital Plan to reflect the impact of the Interim Final Rule ("IFR"), which amended the Volcker Rule, and its decision to sell certain CDO securities to



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

improve the Company's risk profile. In February 2014, the Federal Reserve granted its approval for a resubmission. In March 2014, the Federal Reserve notified the Company that, based upon its original Capital Plan, the Company's capital ratios would not have met certain minimum requirements of the Federal Reserve's capital adequacy rules under results projected by the Federal Reserve using the hypothetical severely adverse economic stress scenario in the Dodd-Frank Act Stress Test ("DFAST"). The DFAST results were worse than those projected by the Company with regard to pretax, pre-provision net revenue, and also with regard to credit losses for some loan types. The Federal Reserve publishes only limited information about its DFAST models, so the Company is unable to determine with specificity the causes of the differences.

The Company resubmitted its 2014 Capital Plan and stress test on April 30, 2014 to the Federal Reserve. The IFR allows banking entities to retain investments in primarily bank trust preferred CDOs. The resubmitted plan incorporated the impact of this exemption, as well as the impact of the sales of CDO securities that occurred in the first quarter of 2014. These sales of \$932 million par amount of CDO securities resulted in net gains of \$26 million during the first quarter of 2014. The resubmission, per the capital planning rules, did not include the effects of the CDO paydowns that occurred during the first quarter of 2014; hence, the total change in the portfolio used in the stress test differs from the total change recorded under GAAP.

The Company has made and will continue to make significant improvements to its internal stress testing, risk management, and related processes to meet the standards of the CCAR process and is allocating significant resources to the successful implementation of these improvements.

**Basel III**

In 2013, the FRB, FDIC, and OCC issued final rules (the "Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework, commonly referred to as Basel III, for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including the Company, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules are effective for the Company on January 1, 2015 (subject to phase-in periods for certain of their components).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements, (iii) apply most deductions/adjustments to regulatory capital measures to CET1 and not to the other components of capital, thus potentially requiring higher levels of CET1 in order to meet minimum ratios, and (iv) expand the scope of the deductions/adjustments from capital as compared to existing regulations.

Under the Basel III Capital Rules, the minimum capital ratios as of January 1, 2015 will be as follows:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (i.e., CET1 plus Additional Tier 1) to risk-weighted assets;
- 8.0% Total capital (i.e., Tier 1 plus Tier 2) to risk-weighted assets; and
- 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

When fully phased in on January 1, 2019, the Basel III Capital Rules will also require the Company and its subsidiary banks to maintain a 2.5% "capital conservation buffer," designed to absorb losses during periods of economic stress, composed entirely of CET1, on top of the minimum risk-weighted asset ratios, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7.0%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%.



Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

The Basel III Capital Rules also prescribe a standardized approach for calculating risk-weighted assets that expands the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories.

Under current capital standards, the effects of AOCI items included in capital are excluded for purposes of determining regulatory capital ratios. Under the Basel III Capital Rules, the effects of certain AOCI items are not excluded; however, “non-advanced approaches banking organizations,” including the Company and its subsidiary banks, may make a one-time permanent election as of January 1, 2015 to continue to exclude these items. The Company has not yet determined whether to make this election.

A more comprehensive discussion about Basel III Capital Rules and the impact upon the Company is contained in the Company’s 2013 Annual Report on 10-K.

The Company believes that, as of June 30, 2014, the Company and its subsidiary banks would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were currently effective including after giving effect to the deduction described above.

GAAP to NON-GAAP RECONCILIATIONS

1. Tier 1 common capital

Traditionally, the Federal Reserve and other banking regulators have assessed a bank’s capital adequacy based on Tier 1 capital, the calculation of which is codified in federal banking regulations. In 2013, the FRB published final rules establishing a new comprehensive capital framework for U.S. banking organizations, including the new CET1 capital measure. The new capital rules are effective for the Company on January 1, 2015; however, some key regulatory changes to the calculation of this measure are phased in over several years. The CET1 capital ratio is the core capital component of the Basel III standards, and we believe that it increasingly is becoming a key ratio considered by regulators, investors, and analysts. There is a difference between this ratio calculated using Basel I definitions of Tier 1 common (“T1C”) capital and those definitions using Basel III rules. We present the calculation of key regulatory capital ratios, including T1C capital, using the governing definition at the end of each quarter, taking into account applicable phase-in rules.

T1C capital is often expressed as a percentage of risk-weighted assets. Under the current risk-based capital framework applicable to the Company, a bank’s balance sheet assets and credit equivalent amounts of off-balance sheet items are assigned to one of four broad “Basel I” risk categories for banks, like our subsidiary banks, that have not adopted the Basel II “Advanced Measurement Approach.” The aggregated dollar amount in each category is then multiplied by the risk weighting assigned to that category. The resulting weighted values from each of the four categories are added together and this sum is the risk-weighted assets total that, as adjusted, comprises the denominator of certain risk-based capital ratios. Tier 1 capital is then divided by this denominator (risk-weighted assets) to determine the Tier 1 capital ratio. Adjustments are made to Tier 1 capital to arrive at T1C capital. T1C capital is also divided by the risk-weighted assets to determine the T1C capital ratio. The amounts disclosed as risk-weighted assets are calculated consistent with banking regulatory requirements.

The following schedule provides a reconciliation of total shareholders’ equity (GAAP) to Tier 1 capital (regulatory) and to T1C capital (non-GAAP) using current U.S. regulatory treatment and not proposed Basel III calculations.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## TIER 1 COMMON CAPITAL (NON-GAAP)

(Amounts in millions)	June 30, 2014	December 31, 2013	June 30, 2013	
Total shareholders' equity (GAAP)	\$6,700	\$6,465	\$6,860	
Accumulated other comprehensive loss	137	192	375	
Nonqualifying goodwill and intangibles	(1,045)	(1,050)	(1,057)	)
Other regulatory adjustments	(1)	(6)	(2)	)
Qualifying trust preferred securities	163	163	163	
Tier 1 capital (regulatory)	5,954	5,764	6,339	
Qualifying trust preferred securities	(163)	(163)	(163)	)
Preferred stock	(1,004)	(1,004)	(1,729)	)
Tier 1 common capital (non-GAAP)	\$4,787	\$4,597	\$4,447	
Risk-weighted assets (regulatory)	\$45,787	\$45,146	\$44,327	
Tier 1 common capital to risk-weighted assets (non-GAAP)	10.45	% 10.18	% 10.03	%

## 2. Tangible return on average tangible common equity

This Form 10-Q presents "tangible return on average tangible common equity" which excludes, net of tax, the amortization of core deposit and other intangibles and impairment loss on goodwill from net earnings applicable to common shareholders, and average goodwill and core deposit and other intangibles from average common equity.

The following schedule provides a reconciliation of net earnings applicable to common shareholders (GAAP) to net earnings applicable to common shareholders, excluding net of tax, the effects of amortization of core deposit and other intangibles and impairment loss on goodwill (non-GAAP), and average common equity (GAAP) to average tangible common equity (non-GAAP).

## TANGIBLE RETURN ON AVERAGE TANGIBLE COMMON EQUITY (NON-GAAP)

(Amounts in thousands)	Three Months Ended		
	June 30, 2014	December 31, 2013	June 30, 2013
Net earnings (loss) applicable to common shareholders (GAAP)	\$104,490	\$(59,437)	\$55,385
Adjustments, net of tax:			
Amortization of core deposit and other intangibles	1,735	2,046	2,391
Net earnings (loss) applicable to common shareholders, excluding the effects of the adjustments, net of tax (non-GAAP)	\$106,225	\$(57,391)	\$57,776
(a)			
Average common equity (GAAP)	\$5,744,696	\$5,233,422	\$5,102,082
Average goodwill	(1,014,129)	(1,014,129)	(1,014,129)
Average core deposit and other intangibles	(32,234)	(38,137)	(45,262)
Average tangible common equity (non-GAAP) (b)	\$4,698,333	\$4,181,156	\$4,042,691
Number of days in quarter (c)	91	92	91
Number of days in year (d)	365	365	365

Tangible return on average tangible common equity (non-GAAP) (a/b/c*d)	9.07	%	(5.45	)%	5.73	%
---	------	---	-------	----	------	---

3. Total shareholders' equity to tangible equity and tangible common equity

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

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

98

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

(Amounts in millions)	June 30, 2014	December 31, 2013	June 30, 2013	
Total shareholders' equity (GAAP)	\$6,700	\$6,465	\$6,860	
Goodwill	(1,014)	(1,014)	(1,014)	)
Core deposit and other intangibles	(31)	(36)	(43)	)
Tangible equity (non-GAAP) (a)	5,655	5,415	5,803	
Preferred stock	(1,004)	(1,004)	(1,729)	)
Tangible common equity (non-GAAP) (b)	\$4,651	\$4,411	\$4,074	
Total assets (GAAP)	\$55,111	\$56,031	\$54,905	
Goodwill	(1,014)	(1,014)	(1,014)	)
Core deposit and other intangibles	(31)	(36)	(43)	)
Tangible assets (non-GAAP) (c)	\$54,066	\$54,981	\$53,848	
Tangible equity ratio (a/c)	10.46	% 9.85	% 10.78	%
Tangible common equity ratio (b/c)	8.60	% 8.02	% 7.57	%

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

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

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

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

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

**ITEM 4. CONTROLS AND PROCEDURES**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2014. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the

Company's disclosure controls and procedures were effective as of June 30, 2014. There were no changes in the Company's internal control over financial reporting during the second quarter of 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 11 of the Notes to Consolidated Financial Statements is incorporated by reference herein.

## ITEM 1A. RISK FACTORS

The Company believes there have been no material changes in the risk factors included in Zions Bancorporation's 2013 Annual Report on Form 10-K.

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

The following schedule summarizes the Company's share repurchases for the second quarter of 2014:

## SHARE REPURCHASES

Period	Total number of shares repurchased <sup>1</sup>	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plan
April	3,395	\$31.22	—	\$—
May	147,958	28.49	—	—
June	2,560	28.89	—	—
Second quarter	153,913	28.56	—	—

Represents common shares acquired from employees in connection with the Company's stock compensation plan.

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



Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

ITEM 6. EXHIBITS

a) Exhibits

Exhibit Number	Description
3.1	Restated Articles of Incorporation of Zions Bancorporation dated July 8, 2014, incorporated by reference to Exhibit 3.1 of Form 8-K/A filed on July 18, 2014. *
3.2	Restated Bylaws of Zions Bancorporation dated November 8, 2011, incorporated by reference to Exhibit 3.13 of Form 10-Q for the quarter ended September 30, 2011. *
31.1	Certification by Chief Executive Officer required by Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (filed herewith).
31.2	Certification by Chief Financial Officer required by Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (filed herewith).
32	Certification by Chief Executive Officer and Chief Financial Officer required by Sections 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m) and 18 U.S.C. Section 1350 (furnished herewith).
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013, (ii) the Consolidated Statements of Income for the three months ended June 30, 2014 and June 30, 2013 and the six months ended June 30, 2014 and June 30, 2013, (iii) the Consolidated Statements of Comprehensive Income for the three months ended June 30, 2014 and June 30, 2013 and the six months ended June 30, 2014 and June 30, 2013, (iv) the Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2014 and June 30, 2013, (v) the Consolidated Statements of Cash Flows for the three months ended June 30, 2014 and June 30, 2013 and the six months ended June 30, 2014 and June 20, 2013, and (vi) the Notes to Consolidated Financial Statements (filed herewith).

\* Incorporated by reference

SIGNATURES

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

ZIONS BANCORPORATION

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

/s/ Doyle L. Arnold  
Doyle L. Arnold, Vice Chairman and

Chief Financial Officer

Date: August 7, 2014

101