

ZIONS BANCORPORATION /UT/  
Form 10-Q  
May 07, 2015

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 March 31, 2015

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  
(Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code: (801) 844-7637

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 April 30, 2015

203,209,100 shares

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

| (In thousands, except shares)  | March 31,<br>2015<br>(Unaudited) | December 31,<br>2014 |
|--|----------------------------------|----------------------|
| <b>ASSETS</b>  |                                  |                      |
| Cash and due from banks  | \$720,858                        | \$841,942            |
| Money market investments:  |                                  |                      |
| Interest-bearing deposits  | 6,791,762                        | 7,178,097            |
| Federal funds sold and security resell agreements                                    | 1,519,352                        | 1,386,291            |
| Investment securities:   |                                  |                      |
| Held-to-maturity, at amortized cost (approximate fair value \$602,355 and \$677,196) | 590,950                          | 647,252              |
| Available-for-sale, at fair value  | 4,450,502                        | 3,844,248            |
| Trading account, at fair value   | 71,392                           | 70,601               |
|  | 5,112,844                        | 4,562,101            |
| Loans held for sale  | 128,946                          | 132,504              |
| Loans and leases, net of unearned income and fees                                    | 40,180,114                       | 40,063,658           |
| Less allowance for loan losses   | 620,013                          | 604,663              |
| Loans, net of allowance  | 39,560,101                       | 39,458,995           |
| Other noninterest-bearing investments  | 870,125                          | 865,950              |
| Premises and equipment, net  | 844,900                          | 829,809              |
| Goodwill   | 1,014,129                        | 1,014,129            |
| Core deposit and other intangibles   | 23,162                           | 25,520               |
| Other real estate owned  | 17,256                           | 18,916               |
| Other assets   | 952,496                          | 894,620              |
|  | \$57,555,931                     | \$57,208,874         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                                  |                      |
| Deposits:  |                                  |                      |
| Noninterest-bearing demand   | \$20,854,630                     | \$20,529,124         |
| Interest-bearing:  |                                  |                      |
| Savings and money market   | 24,540,927                       | 24,583,636           |
| Time   | 2,344,818                        | 2,406,924            |
| Foreign  | 382,985                          | 328,391              |
|  | 48,123,360                       | 47,848,075           |
| Federal funds and other short-term borrowings  | 203,597                          | 244,223              |
| Long-term debt   | 1,089,321                        | 1,092,282            |
| Reserve for unfunded lending commitments   | 82,287                           | 81,076               |
| Other liabilities  | 603,068                          | 573,688              |
| Total liabilities  | 50,101,633                       | 49,839,344           |
| Shareholders' equity:  |                                  |                      |

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|   |              |              |
|---|--------------|--------------|
| Preferred stock, without par value, authorized 4,400,000 shares   | 1,004,032    | 1,004,011    |
| Common stock, without par value; authorized 350,000,000 shares; issued and outstanding 203,192,991 and 203,014,903 shares | 4,728,556    | 4,723,855    |
| Retained earnings   | 1,836,619    | 1,769,705    |
| Accumulated other comprehensive income (loss)   | (114,909     | ) (128,041 ) |
| Total shareholders' equity  | 7,454,298    | 7,369,530    |
|   | \$57,555,931 | \$57,208,874 |

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

| (In thousands, except per share amounts)              | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2015                            | 2014      |
| Interest income:                                      |                                 |           |
| Interest and fees on loans                            | \$415,755                       | \$434,350 |
| Interest on money market investments                  | 5,218                           | 5,130     |
| Interest on securities                                | 27,473                          | 28,094    |
| Total interest income                                 | 448,446                         | 467,574   |
| Interest expense:                                     |                                 |           |
| Interest on deposits                                  | 12,104                          | 12,779    |
| Interest on short- and long-term borrowings           | 18,996                          | 38,324    |
| Total interest expense                                | 31,100                          | 51,103    |
| Net interest income                                   | 417,346                         | 416,471   |
| Provision for loan losses                             | (1,494                          | ) (610    |
| Net interest income after provision for loan losses   | 418,840                         | 417,081   |
| Noninterest income:                                   |                                 |           |
| Service charges and fees on deposit accounts          | 41,194                          | 41,199    |
| Other service charges, commissions and fees           | 47,486                          | 44,250    |
| Wealth management income                              | 7,615                           | 7,077     |
| Loan sales and servicing income                       | 7,706                           | 7,096     |
| Capital markets and foreign exchange                  | 5,501                           | 5,043     |
| Dividends and other investment income                 | 9,372                           | 7,864     |
| Fair value and nonhedge derivative loss               | (1,088                          | ) (8,539  |
| Equity securities gains, net                          | 3,353                           | 912       |
| Fixed income securities gains (losses), net           | (239                            | ) 30,914  |
| Impairment losses on investment securities            | —                               | (27       |
| Less amounts recognized in other comprehensive income | —                               | —         |
| Net impairment losses on investment securities        | —                               | (27       |
| Other   | 922                             | 2,524     |
| Total noninterest income                              | 121,822                         | 138,313   |
| Noninterest expense:                                  |                                 |           |
| Salaries and employee benefits                        | 243,519                         | 233,402   |
| Occupancy, net  | 29,339                          | 28,305    |
| Furniture, equipment and software                     | 29,713                          | 27,944    |
| Other real estate expense                             | 374                             | 1,607     |
| Credit-related expense                                | 5,939                           | 6,947     |
| Provision for unfunded lending commitments            | 1,211                           | (1,012    |
| Professional and legal services                       | 11,483                          | 10,995    |
| Advertising   | 6,975                           | 6,398     |
| FDIC premiums   | 8,119                           | 7,922     |
| Amortization of core deposit and other intangibles    | 2,358                           | 2,882     |
| Other   | 58,431                          | 72,673    |
| Total noninterest expense                             | 397,461                         | 398,063   |

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|   |          |             |
|---|----------|-------------|
| Income before income taxes                                    | 143,201  | 157,331     |
| Income taxes  | 51,176   | 56,121      |
| Net income  | 92,025   | 101,210     |
| Dividends on preferred stock                                  | (16,746  | ) (25,020 ) |
| Net earnings applicable to common shareholders                | \$75,279 | \$76,190    |
| Weighted average common shares outstanding during the period: |          |             |
| Basic shares  | 202,603  | 184,440     |
| Diluted shares  | 202,944  | 185,123     |
| Net earnings per common share:                                |          |             |
| Basic   | \$0.37   | \$0.41      |
| Diluted   | 0.37     | 0.41        |

See accompanying notes to consolidated financial statements.

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

| (In thousands)   | Three Months Ended |           |
|--|--------------------|-----------|
|  | March 31,<br>2015  | 2014      |
| Net income for the period  | \$92,025           | \$101,210 |
| Other comprehensive income, net of tax:  |                    |           |
| Net unrealized holding gains on investment securities  | 486                | 73,907    |
| Reclassification of HTM securities to AFS securities   | 10,938             | —         |
| Reclassification to earnings for realized net fixed income securities losses (gains)                         | 148                | (24,840)  |
| Reclassification to earnings for net credit-related impairment losses on investment securities               | —                  | 17        |
| Accretion of securities with noncredit-related impairment losses not expected to be sold                     | —                  | 286       |
| Net unrealized losses on other noninterest-bearing investments   | (364)              | (2,841)   |
| Net unrealized holding gains on derivative instruments   | 2,553              | 320       |
| Reclassification adjustment for increase in interest income recognized in earnings on derivative instruments | (629)              | (210)     |
| Other comprehensive income   | 13,132             | 46,639    |
| Comprehensive income   | \$105,157          | \$147,849 |
| See accompanying notes to consolidated financial statements.   |                    |           |

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

| (In thousands, except shares<br>and per share amounts)        | Preferred<br>stock | Common stock |              | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss) | Total<br>shareholders'<br>equity |
|---|--------------------|--------------|--------------|----------------------|--|----------------------------------|
|   |                    | Shares       | Amount       |                      |  |                                  |
| Balance at December 31, 2014                                  | \$ 1,004,011       | 203,014,903  | \$ 4,723,855 | \$ 1,769,705         | \$(128,041 )   | \$ 7,369,530                     |
| Net income for the period                                     |                    |              |              | 92,025               |  | 92,025                           |
| Other comprehensive income,<br>net of tax                     |                    |              |              |                      | 13,132   | 13,132                           |
| Subordinated debt converted to<br>preferred stock             | 21                 |              | (6 )         |                      |  | 15                               |
| Net activity under employee<br>plans and related tax benefits |                    | 178,088      | 4,707        |                      |  | 4,707                            |
| Dividends on preferred stock                                  |                    |              |              | (16,746 )            |  | (16,746 )                        |
| Dividends on common stock,<br>\$0.04 per share                |                    |              |              | (8,176 )             |  | (8,176 )                         |
| Change in deferred<br>compensation                            |                    |              |              | (189 )               |  | (189 )                           |
| Balance at March 31, 2015                                     | \$ 1,004,032       | 203,192,991  | \$ 4,728,556 | \$ 1,836,619         | \$(114,909 )   | \$ 7,454,298                     |
| 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                                     |                    |              |              | 101,210              |  | 101,210                          |
| Other comprehensive income,<br>net of tax                     |                    |              |              |                      | 46,639   | 46,639                           |
| Net activity under employee<br>plans and related tax benefits |                    | 217,486      | 6,489        |                      |  | 6,489                            |
| Dividends on preferred stock                                  |                    |              |              | (25,020 )            |  | (25,020 )                        |
| Dividends on common stock,<br>\$0.04 per share                |                    |              |              | (7,436 )             |  | (7,436 )                         |
| Change in deferred<br>compensation                            |                    |              |              | (229 )               |  | (229 )                           |
| Balance at March 31, 2014                                     | \$ 1,003,970       | 184,895,182  | \$ 4,185,513 | \$ 1,542,195         | \$(145,462 )   | \$ 6,586,216                     |

See accompanying notes to consolidated financial statements.



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

| (In thousands)  | Three Months Ended<br>March 31, |             |
|---|---------------------------------|-------------|
|   | 2015                            | 2014        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                 |             |
| Net income for the period   | \$92,025                        | \$101,210   |
| Adjustments to reconcile net income to net cash provided by operating activities:         |                                 |             |
| Net impairment losses on investment securities  | —                               | 27          |
| Provision for credit losses   | (283                            | ) (1,622    |
| Depreciation and amortization   | 34,169                          | 32,404      |
| Fixed income securities losses (gains), net   | 239                             | (30,914     |
| Deferred income tax expense   | 3,402                           | 78,278      |
| Net increase in trading securities  | (1,021                          | ) (21,862   |
| Net decrease in loans held for sale   | 3,517                           | 44,984      |
| Change in other liabilities   | 25,566                          | (77,796     |
| Change in other assets  | (65,248                         | ) 3,226     |
| Other, net  | (3,549                          | ) 2,336     |
| Net cash provided by operating activities   | 88,817                          | 130,271     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                                 |             |
| Net decrease (increase) in money market investments                                       | 253,274                         | (80,851     |
| Proceeds from maturities and paydowns of investment securities held-to-maturity           | 39,323                          | 18,935      |
| Purchases of investment securities held-to-maturity                                       | (22,576                         | ) (35,750   |
| Proceeds from sales, maturities, and paydowns of investment securities available-for-sale | 228,894                         | 847,288     |
| Purchases of investment securities available-for-sale                                     | (784,856                        | ) (452,123  |
| Net change in loans and leases  | (100,442                        | ) (166,415  |
| Net purchases of premises and equipment   | (33,533                         | ) (76,916   |
| Proceeds from sales of other real estate owned  | 3,401                           | 11,825      |
| Other, net  | 3,351                           | 5,617       |
| Net cash provided by (used in) investing activities                                       | (413,164                        | ) 71,610    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                                 |             |
| Net increase in deposits  | 275,285                         | 170,422     |
| Net change in short-term funds borrowed   | (40,626                         | ) (60,511   |
| Repayments of long-term debt  | (8,185                          | ) (124,755  |
| Proceeds from the issuance of common stock  | 962                             | 2,880       |
| Dividends paid on common and preferred stock  | (23,234                         | ) (23,741   |
| Other, net  | (939                            | ) (303      |
| Net cash provided by (used in) financing activities                                       | 203,263                         | (36,008     |
| Net increase (decrease) in cash and due from banks  | (121,084                        | ) 165,873   |
| Cash and due from banks at beginning of period  | 841,942                         | 1,173,057   |
| Cash and due from banks at end of period  | \$720,858                       | \$1,338,930 |

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|  |          |          |
|--|----------|----------|
| Cash paid for interest                                       | \$22,119 | \$40,849 |
| Net refunds received for income taxes                        | (500     | ) (81    |
| See accompanying notes to consolidated financial statements. |          | )        |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2015

## 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. These reclassifications did not affect net income.

Operating results for the three months ended March 31, 2015 and 2014 are not necessarily indicative of the results that may be expected in future periods. The consolidated balance sheet at December 31, 2014 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 2014 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”). Effective April 1, 2015, TCBO was merged into TCBW. The Parent and its subsidiary banks also own and operate certain nonbank subsidiaries that engage in financial services.

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

| Standard  | Description  | Date of adoption | Effect on the financial statements or other significant matters  |
|---|--|------------------|--|
| Standards not yet adopted by the Company  |  |                  |  |
| ASU 2015-05, Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement (Subtopic 350-40) | The standard provides guidance to determine whether an arrangement includes a software license. If it does, the customer accounts for it the same way as for other software licenses. If no software license is included, the customer accounts for it as a service contract. Adoption may be retrospective or prospective. Early adoption is permitted. | January 1, 2016  | We are currently evaluating the impact this new guidance may have on the Company’s financial statements. |
| ASU 2015-03, Simplifying the Presentation of Debt   | The standard requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the associated debt   | January 1, 2016  | We currently include debt issuance costs in other assets. The amount                                     |

Issuance  
Costs (Subtopic  
835-30)

liability, consistent with debt discounts. Adoption is  
retrospective and early adoption is permitted.

to be reclassified to the  
debt liability is not  
material to the  
Company's financial  
statements.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| Standard   | Description  | Date of adoption   | Effect on the financial statements or other significant matters  |
|--|--|--|--|
| Standards not yet adopted by the Company (continued)   |  |  |  |
| ASU 2015-02, Amendments to the Consolidation Analysis (Topic 810)  | The new standard changes certain criteria in the variable interest model and the voting model to determine whether certain legal entities are variable interest entities (“VIEs”) and whether they should be consolidated. Additional disclosures are required regarding entities not currently considered VIEs, but may become VIEs under the new guidance and may be subject to consolidation. Adoption may be retrospective or modified retrospective with a cumulative effect adjustment. Early adoption is permitted.   | January 1, 2016  | We currently do not consolidate any VIEs and do not expect this new guidance will have a material impact on the Company’s financial statements.                            |
| ASU 2014-09, Revenue from Contracts with Customers (Topic 606)   | 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 standard, (including loans, derivatives, debt and equity securities, etc.). However, the new standard affects other fees charged by banks, such as asset management fees, credit card interchange fees, deposit account fees, etc. Adoption may be made on a full retrospective basis with practical expedients, or on a modified retrospective basis with a cumulative effect adjustment. Early adoption is not permitted. | January 1, 2017<br>(FASB voted on April 1, 2015 to propose to defer effective date by one year from the above date). | While we currently do not expect this standard will have a significant impact on the Company’s financial statements, we are still in process of conducting our evaluation. |
| Standards adopted by the Company   |  |  |  |
| ASU 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure (Subtopic 310-40) | The standard addresses the classification of certain foreclosed mortgage loans fully or partially guaranteed under government programs. Under certain such programs, qualifying creditors can extend mortgage loans with a guarantee entitling the creditor to recover all or a portion of the unpaid principal balance from the government if the borrower defaults. A separate other receivable is established that is measured based on the amount of the loans expected to be recovered.   | January 1, 2015  | Our adoption of this standard had no impact on the accompanying financial statements.  |

ASU 2014-04,  
Reclassification of  
Residential Real Estate  
Collateralized  
Consumer Mortgage  
Loans upon Foreclosure  
(Subtopic 310-40)

The standard 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. Additional financial statement disclosures will be required.

January 1,  
2015

Our adoption of this standard added a nominal amount of additional disclosure to Note 6.

ASU 2014-01,  
Accounting for  
Investments in Qualified  
Affordable Housing  
Projects (Topic 323)

The standard revised conditions an entity must meet to elect the effective yield method when accounting for qualified affordable housing project investments. The EITF final consensus changed the method of amortizing a Low-Income Housing Tax Credit (“LIHTC”) investment from the effective yield method to a proportional amortization method. Amortization would be proportional to the tax credits and tax benefits received but, under a practical expedient 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.

January 1,  
2015

Our adoption of this standard did not have a significant effect on the accompanying financial statements.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## 3. SUPPLEMENTAL CASH FLOW INFORMATION

Noncash activities are summarized as follows:

| (In thousands)  | Three Months Ended |         |
|---|--------------------|---------|
|   | March 31,<br>2015  | 2014    |
| Loans and leases transferred to other real estate owned         | \$3,568            | \$6,338 |
| Loans held for sale reclassified as loans and leases            | 13,138             | 3,789   |
| Amortized cost of HTM securities reclassified as AFS securities | 79,276             | —       |

## 4. OFFSETTING ASSETS AND LIABILITIES

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

March 31, 2015

| (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 | \$1,519,352              | \$—                                       | \$1,519,352                                | \$—   | \$ —                             | \$1,519,352 |
|                | Derivatives (included in other assets)            | 83,978                   | —   | 83,978                                     | (5,121 )                                      | —                                | 78,857      |
|                |   | \$1,603,330              | \$—                                       | \$1,603,330                                | \$(5,121 )                                    | \$ —                             | \$1,598,209 |
| Liabilities:   |   |                          |   |  |   |                                  |             |
|                | Federal funds and other short-term borrowings     | \$203,597                | \$—                                       | \$203,597                                  | \$—   | \$ —                             | \$203,597   |
|                | Derivatives (included in other liabilities)       | 81,123                   | —   | 81,123                                     | (5,121 )                                      | (38,833 )                        | 37,169      |
|                |   | \$284,720                | \$—                                       | \$284,720                                  | \$(5,121 )                                    | \$(38,833 )                      | \$240,766   |

| (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 | \$1,386,291              | \$—                                       | \$1,386,291                                | \$—   | \$ —                             | \$1,386,291 |
|                | Derivatives (included in other assets)            | 66,420                   | —   | 66,420                                     | (3,755 )                                      |                                  | 62,665      |

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|   |             |     |             |            |              |             |
|---|-------------|-----|-------------|------------|--------------|-------------|
|   | \$1,452,711 | \$— | \$1,452,711 | \$(3,755 ) | \$ —         | \$1,448,956 |
| <b>Liabilities:</b>                           |             |     |             |            |              |             |
| Federal funds and other short-term borrowings | \$244,223   | \$— | \$244,223   | \$—        | \$ —         | \$244,223   |
| Derivatives (included in other liabilities)   | 66,064      | —   | 66,064      | (3,755 )   | (31,968 )    | 30,341      |
|   | \$310,287   | \$— | \$310,287   | \$(3,755 ) | \$ (31,968 ) | \$274,564   |

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.



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## ZIONS BANCORPORATION AND SUBSIDIARIES

## 5. INVESTMENTS

## Investment Securities

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

| (In thousands)                                       | March 31, 2015 |                        |                         |                      |
|--|----------------|------------------------|-------------------------|----------------------|
|  | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| Held-to-maturity                                     |                |                        |                         |                      |
| Municipal securities                                 | \$590,950      | \$12,208               | \$803                   | \$602,355            |
| Available-for-sale                                   |                |                        |                         |                      |
| U.S. Government agencies and corporations:           |                |                        |                         |                      |
| Agency securities                                    | 631,603        | 1,406                  | 7,139                   | 625,870              |
| Agency guaranteed mortgage-backed securities         | 1,417,843      | 16,441                 | 614                     | 1,433,670            |
| Small Business Administration loan-backed securities | 1,588,562      | 15,677                 | 8,558                   | 1,595,681            |
| Municipal securities                                 | 175,017        | 1,282                  | 689                     | 175,610              |
| Asset-backed securities:                             |                |                        |                         |                      |
| Trust preferred securities – banks and insurance     | 611,836        | 99                     | 150,418                 | 461,517              |
| Other  | 5,229          | 235                    | —                       | 5,464                |
|  | 4,430,090      | 35,140                 | 167,418                 | 4,297,812            |
| Mutual funds and other                               | 153,235        | 101                    | 646                     | 152,690              |
|  | 4,583,325      | 35,241                 | 168,064                 | 4,450,502            |
| Total  | \$5,174,275    | \$47,449               | \$168,867               | \$5,052,857          |

| (In thousands)                                       | December 31, 2014 |                                |                         |                |                        |                         |                      |
|--|-------------------|--------------------------------|-------------------------|----------------|------------------------|-------------------------|----------------------|
|  | Amortized cost    | Recognized in OCI <sup>1</sup> |                         |                | Not recognized in OCI  |                         | Estimated fair value |
|  |                   | Gross unrealized gains         | Gross unrealized losses | Carrying value | Gross unrealized gains | Gross unrealized losses |                      |
| Held-to-maturity                                     |                   |                                |                         |                |                        |                         |                      |
| Municipal securities                                 | \$607,675         | \$—                            | \$—                     | \$607,675      | \$13,018               | \$804                   | \$619,889            |
| Asset-backed securities:                             |                   |                                |                         |                |                        |                         |                      |
| Trust preferred securities – banks and insurance     | 79,276            | —                              | 39,699                  | 39,577         | 18,393                 | 663                     | 57,307               |
|  | 686,951           | —                              | 39,699                  | 647,252        | 31,411                 | 1,467                   | 677,196              |
| Available-for-sale                                   |                   |                                |                         |                |                        |                         |                      |
| U.S. Government agencies and corporations:           |                   |                                |                         |                |                        |                         |                      |
| Agency securities                                    | 607,523           | 1,572                          | 8,343                   | 600,752        |                        |                         | 600,752              |
| Agency guaranteed mortgage-backed securities         | 935,164           | 12,132                         | 2,105                   | 945,191        |                        |                         | 945,191              |
| Small Business Administration loan-backed securities | 1,544,710         | 16,446                         | 8,891                   | 1,552,265      |                        |                         | 1,552,265            |
| Municipal securities                                 | 189,059           | 1,143                          | 945                     | 189,257        |                        |                         | 189,257              |
| Asset-backed securities:                             |                   |                                |                         |                |                        |                         |                      |

|   |             |          |           |             |             |
|---|-------------|----------|-----------|-------------|-------------|
| Trust preferred securities – banks<br>and insurance | 537,589     | 103      | 121,984   | 415,708     | 415,708     |
| Other   | 5,252       | 207      | 7         | 5,452       | 5,452       |
|   | 3,819,297   | 31,603   | 142,275   | 3,708,625   | 3,708,625   |
| Mutual funds and other                              | 136,591     | 76       | 1,044     | 135,623     | 135,623     |
|   | 3,955,888   | 31,679   | 143,319   | 3,844,248   | 3,844,248   |
| Total   | \$4,642,839 | \$31,679 | \$183,018 | \$4,491,500 | \$4,521,444 |
| <sup>1</sup> Other comprehensive income             |             |          |           |             |             |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

During the first quarter of 2015, we reclassified all of the remaining held-to-maturity (“HTM”) collateralized debt obligation (“CDO”) securities, or approximately \$79 million at amortized cost, to available-for-sale (“AFS”) securities. The reclassification reduced existing unrealized losses in OCI of \$40 million on HTM securities by approximately \$18 million pretax. These existing unrealized losses resulted from a previous reclassification of AFS securities to HTM, and from OTTI. We took this action as a result of the most recent Dodd-Frank Act stress test results and the treatment of the CDO securities under the new Basel III capital and risk weighting rules that became effective January 1, 2015. The reclassification provides the Company with greater flexibility in the management of these securities. Current accounting guidance allows for the reclassification of HTM to AFS securities, without calling into question the entity’s intent to hold other debt securities to maturity, when there has been a significant increase in the risk weights of debt securities used for regulatory risk-based capital purposes. No gain or loss was recognized in the statement of income at the time of reclassification.

The amortized cost and estimated fair value of investment debt securities are shown subsequently as of March 31, 2015 by contractual maturity, except for CDOs, Small Business Administration (“SBA”) loan-backed securities, agency guaranteed mortgage-backed securities, and certain agency and municipal securities, where expected maturity is used. Actual maturities may differ from contractual or expected 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                | \$96,220         | \$97,409             | \$639,077          | \$638,407            |
| Due after one year through five years  | 188,507          | 191,799              | 1,719,501          | 1,718,550            |
| Due after five years through ten years | 158,244          | 164,415              | 1,155,325          | 1,146,764            |
| Due after ten years                    | 147,979          | 148,732              | 916,187            | 794,091              |
|  | \$590,950        | \$602,355            | \$4,430,090        | \$4,297,812          |

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:

| (In thousands)                                       | March 31, 2015          |                      |                         |                      |                         |                      |
|--|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|
|  | 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                                 | \$722                   | \$93,203             | \$81                    | \$3,831              | \$803                   | \$97,034             |
| Available-for-sale                                   |                         |                      |                         |                      |                         |                      |
| U.S. Government agencies and corporations:           |                         |                      |                         |                      |                         |                      |
| Agency securities                                    | 2,631                   | 139,038              | 4,508                   | 287,134              | 7,139                   | 426,172              |
| Agency guaranteed mortgage-backed securities         | 438                     | 178,832              | 176                     | 12,750               | 614                     | 191,582              |
| Small Business Administration loan-backed securities | 4,551                   | 460,629              | 4,007                   | 264,312              | 8,558                   | 724,941              |
| Municipal securities                                 | 129                     | 28,134               | 560                     | 2,916                | 689                     | 31,050               |

## Asset-backed securities:

|  |         |           |           |             |           |             |
|--|---------|-----------|-----------|-------------|-----------|-------------|
| Trust preferred securities – banks and insurance | —       | —         | 150,418   | 446,038     | 150,418   | 446,038     |
|  | 7,749   | 806,633   | 159,669   | 1,013,150   | 167,418   | 1,819,783   |
| Mutual funds and other                           | 646     | 72,296    | —         | —           | 646       | 72,296      |
|  | 8,395   | 878,929   | 159,669   | 1,013,150   | 168,064   | 1,892,079   |
| Total  | \$9,117 | \$972,132 | \$159,750 | \$1,016,981 | \$168,867 | \$1,989,113 |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)                                       | December 31, 2014       |                      |                         |                      |                         |                      |
|--|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|
|  | 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                                 | \$527                   | \$62,762             | \$277                   | \$14,003             | \$804                   | \$76,765             |
| Asset-backed securities:                             |                         |                      |                         |                      |                         |                      |
| Trust preferred securities – banks and insurance     | 53                      | 122                  | 40,309                  | 57,186               | 40,362                  | 57,308               |
|  | 580                     | 62,884               | 40,586                  | 71,189               | 41,166                  | 134,073              |
| Available-for-sale                                   |                         |                      |                         |                      |                         |                      |
| U.S. Government agencies and corporations:           |                         |                      |                         |                      |                         |                      |
| Agency securities                                    | 4,510                   | 295,694              | 3,833                   | 101,188              | 8,343                   | 396,882              |
| Agency guaranteed mortgage-backed securities         | 1,914                   | 425,114              | 191                     | 12,124               | 2,105                   | 437,238              |
| Small Business Administration loan-backed securities | 5,869                   | 495,817              | 3,022                   | 175,523              | 8,891                   | 671,340              |
| Municipal securities                                 | 258                     | 36,551               | 687                     | 4,616                | 945                     | 41,167               |
| Asset-backed securities:                             |                         |                      |                         |                      |                         |                      |
| Trust preferred securities – banks and insurance     | —                       | —                    | 121,984                 | 405,605              | 121,984                 | 405,605              |
| Other  | 7                       | 1,607                | —                       | —                    | 7                       | 1,607                |
|  | 12,558                  | 1,254,783            | 129,717                 | 699,056              | 142,275                 | 1,953,839            |
| Mutual funds and other                               | 1,044                   | 71,907               | —                       | —                    | 1,044                   | 71,907               |
|  | 13,602                  | 1,326,690            | 129,717                 | 699,056              | 143,319                 | 2,025,746            |
| Total  | \$14,182                | \$1,389,574          | \$170,303               | \$770,245            | \$184,485               | \$2,159,819          |

At March 31, 2015 and December 31, 2014, respectively, 188 and 153 HTM and 433 and 458 AFS investment securities were in an unrealized loss position.

**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 have formed a documented intent to sell identified securities or initiated such sales; (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.

CDO Sales and Paydowns

During the first quarter of 2015, sales, paydowns and payoffs of CDO securities, along with net gains/losses, were not significant. During the first quarter of 2014, we recorded a total of \$993 million par amount of sales and paydowns of CDO securities, resulting in net gains of approximately \$31 million. These sales were made in part as a result of the Volcker Rule.

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ZIONS BANCORPORATION AND SUBSIDIARIES

OTTI Conclusions

Our 2014 Annual Report on Form 10-K describes in more detail our OTTI evaluation process. The following summarizes the conclusions from our OTTI evaluation by each security type that has significant gross unrealized losses at March 31, 2015:

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 (“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 driver of unrealized losses on CDOs with bank only or bank and insurance collateral are market yield requirements for bank and bank and insurance CDO securities. 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 of junior priority securities. The PIK feature provides that upon the CDO reaching certain levels of collateral default or deferral, certain junior CDO tranches will not receive current interest but will instead have the unpaid interest amount capitalized. 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.

Our ongoing review of these securities determined that no OTTI should be recorded in the first quarter of 2015.

OTTI – U.S. Government Agencies and Corporations

Agency securities: These securities were issued by the Federal Agricultural Mortgage Corporation (“FAMC”) and the Export-Import Bank of the U.S. These securities are floating rate and were purchased at premiums or discounts. They have maturity dates from 1 to 25 years and have contractual cash flows guaranteed by agencies of the U.S.

Government. Unrealized losses relate to changes in interest rates subsequent to purchase and are not attributable to credit. At March 31, 2015, we did not have an intent to sell identified securities with unrealized losses or initiate such sales, and we believe it is more likely than not we would not be required to sell such securities before recovery of their amortized cost basis. Therefore, we did not record OTTI for these securities during the first quarter of 2015.

Small Business Administration Loan-Backed Securities: These securities were generally purchased at premiums with maturities from 5 to 25 years and have principal cash flows guaranteed by the SBA. Unrealized losses relate to changes in interest rates subsequent to purchase and are not attributable to credit. At March 31, 2015, we did not have an intent to sell identified SBA securities with unrealized losses or initiate such sales, and we believe it is more likely than not we would not be required to sell such securities before recovery of their amortized cost basis. Therefore, we did not record OTTI for these securities during the first quarter of 2015.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

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

| (In thousands)   | Three Months Ended |               |               | Three Months Ended |               |               |
|--|--------------------|---------------|---------------|--------------------|---------------|---------------|
|  | March 31, 2015     |               |               | March 31, 2014     |               |               |
|  | HTM                | AFS           | Total         | HTM                | AFS           | Total         |
| Balance of credit-related OTTI at beginning of period            | \$ (9,079 )        | \$ (95,472 )  | \$ (104,551 ) | \$ (9,052 )        | \$ (176,833 ) | \$ (185,885 ) |
| Additional credit-related OTTI on securities previously impaired | —                  | —             | —             | (27 )              | —             | (27 )         |
| Reductions for securities sold or paid off during the period     | —                  | 1,313         | 1,313         | —                  | 12,919        | 12,919        |
| Reclassification of securities from HTM to AFS                   | 9,079              | (9,079 )      | —             | —                  | —             | —             |
| Balance of credit-related OTTI at end of period                  | \$ —               | \$ (103,238 ) | \$ (103,238 ) | \$ (9,079 )        | \$ (163,914 ) | \$ (172,993 ) |

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 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.

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

| (In thousands)                                 | Three Months Ended |              |                |              |
|--|--------------------|--------------|----------------|--------------|
|  | March 31, 2015     |              | March 31, 2014 |              |
|  | Gross gains        | Gross losses | Gross gains    | Gross losses |
| Investment securities:                         |                    |              |                |              |
| Held-to-maturity                               | \$ 1               | \$ —         | \$ —           | \$ 27        |
| Available-for-sale                             | 958                | 1,198        | 72,561         | 41,647       |
| Other noninterest-bearing investments          | 3,595              | 242          | 912            | —            |
| Net gains                                      | 4,554              | 1,440        | 73,473         | 41,674       |
|  |                    | \$ 3,114     |                | \$ 31,799    |
| Statement of income information:               |                    |              |                |              |
| Net impairment losses on investment securities |                    | \$ —         |                | \$ (27 )     |
| Equity securities gains, net                   |                    | 3,353        |                | 912          |
| Fixed income securities gains (losses), net    |                    | (239 )       |                | 30,914       |
| Net gains                                      |                    | \$ 3,114     |                | \$ 31,799    |

Interest income by security type is as follows:

| (In thousands) | Three Months Ended |            |       | Three Months Ended |            |       |
|----------------|--------------------|------------|-------|--------------------|------------|-------|
|                | March 31, 2015     |            |       | March 31, 2014     |            |       |
|                | Taxable            | Nontaxable | Total | Taxable            | Nontaxable | Total |



## Investment securities:

|                    |          |         |          |          |         |          |
|--------------------|----------|---------|----------|----------|---------|----------|
| Held-to-maturity   | \$3,592  | \$2,862 | \$6,454  | \$3,828  | \$2,836 | \$6,664  |
| Available-for-sale | 19,768   | 653     | 20,421   | 20,424   | 524     | 20,948   |
| Trading            | 598      | —       | 598      | 482      | —       | 482      |
|                    | \$23,958 | \$3,515 | \$27,473 | \$24,734 | \$3,360 | \$28,094 |

Investment securities with a carrying value of \$1.3 billion at March 31, 2015 and \$1.4 billion at December 31, 2014 were pledged to secure public and trust deposits, advances, and for other purposes as required by law. Securities are also pledged as collateral for security repurchase agreements.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## Private Equity Investments

## Effect of Volcker Rule (“VR”)

The VR, as published pursuant to the Dodd-Frank Act in December 2013 and amended in January 2014, significantly restricted certain activities by covered bank holding companies, including restrictions on certain types of securities, proprietary trading, and private equity investing. As of December 31, 2014, the only prohibited investments under the VR requiring divestiture by the Company were certain of its private equity investments (“PEIs”). Of the recorded PEIs of \$132 million at March 31, 2015 (consisting of Small Business Investment Companies (“SBICs”) and non-SBICs), approximately \$33 million were prohibited by the VR.

As discussed in Note 11, we have \$35 million of unfunded commitments for PEIs, of which approximately \$8 million relate to prohibited PEIs. Until we dispose of the prohibited PEIs, we expect to fund these commitments if and as the capital calls are made, as allowed under the VR.

During the first quarter of 2015, we recorded approximately \$5 million in sales of PEIs resulting in insignificant amounts of net realized gains. All of these sales related to prohibited PEIs. During 2014 since the final issuance of the VR, we have sold approximately \$8.3 million of prohibited PEIs. We anticipate disposing of the remainder of these prohibited PEIs before the required deadline. However, the required deadline has been extended to July 21, 2016 from July 21, 2015 and the Federal Reserve has announced its intention to act in 2015 to grant an additional one-year extension to July 21, 2017. See other discussions in Notes 10 and 11.

## 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)                              | March 31,<br>2015 | December 31,<br>2014 |
|---|-------------------|----------------------|
| Loans held for sale                         | \$ 128,946        | \$ 132,504           |
| Commercial:                                 |                   |                      |
| Commercial and industrial                   | \$ 13,264,092     | \$ 13,162,955        |
| Leasing                                     | 407,137           | 408,974              |
| Owner occupied                              | 7,309,639         | 7,351,548            |
| Municipal                                   | 555,122           | 520,887              |
| Total commercial                            | 21,535,990        | 21,444,364           |
| Commercial real estate:                     |                   |                      |
| Construction and land development           | 2,044,641         | 1,986,408            |
| Term  | 8,088,430         | 8,126,600            |
| Total commercial real estate                | 10,133,071        | 10,113,008           |
| Consumer:                                   |                   |                      |
| Home equity credit line                     | 2,314,806         | 2,321,150            |
| 1-4 family residential                      | 5,212,963         | 5,200,882            |
| Construction and other consumer real estate | 373,335           | 370,542              |
| Bankcard and other revolving plans          | 406,723           | 401,352              |
| Other                                       | 203,226           | 212,360              |
| Total consumer                              | 8,511,053         | 8,506,286            |
| Total loans                                 | \$ 40,180,114     | \$ 40,063,658        |

Loan balances are presented net of unearned income and fees, which amounted to \$142.8 million at March 31, 2015 and \$144.7 million at December 31, 2014.

Owner occupied and commercial real estate (“CRE”) loans include unamortized premiums of approximately \$33.7 million at March 31, 2015 and \$36.5 million at December 31, 2014.

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ZIONS BANCORPORATION AND SUBSIDIARIES

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 \$462.7 million at March 31, 2015 and \$484.9 million at December 31, 2014.

Loans with a carrying value of approximately \$22.6 billion at March 31, 2015 and \$22.5 billion at December 31, 2014 have been pledged at the Federal Reserve and various Federal Home Loan Banks (“FHLBs”) as collateral for current and potential borrowings. Note 8 presents the balance of FHLB advances made to the Company against this pledged collateral.

We sold loans with a carrying value of \$300.4 million and \$337.6 million for the three months ended March 31, 2015 and 2014, 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 and the guaranteed portion of SBA loans. The principal balance of sold loans for which we retain servicing was approximately \$1.2 billion at both March 31, 2015 and December 31, 2014.

Amounts added to loans held for sale during these periods were \$309.7 million and \$295.5 million, respectively. Income from loans sold, excluding servicing, for these same periods was \$4.6 million and \$3.5 million.

Since 2009, CB&T and NSB have had loss sharing agreements with the Federal Deposit Insurance Corporation (“FDIC”), which provided indemnification for credit losses of acquired loans and foreclosed assets up to specified thresholds. The last of the agreements for commercial loans, which comprised the major portion of the acquired portfolio, expired as of September 30, 2014. The agreements for 1-4 family residential loans will expire in 2019. In previous periods, the FDIC-supported loan balances were presented separately in this footnote and in other disclosures, and included purchased credit-impaired (“PCI”) loans, as subsequently discussed in Purchased Loans. Due to declining balances, for all periods presented herein, the FDIC-supported/PCI loans have been reclassified to their respective loan segments and classes.

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 when 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 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. In addition, loan officers utilize their

experience and judgment in assigning PD and LGD grades, subject to confirmation of the PD and LGD by either credit risk or credit examination. We create groupings of these grades for each subsidiary bank and loan class

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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.

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 changes made by management in its assessment of these factors, the extent these factors are already reflected in historic loss rates, and the extent changes in 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.



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|  |           |           |          |           |
|--|-----------|-----------|----------|-----------|
| Reserve for unfunded lending commitments | 49,870    | 35,273    | 3,550    | 88,693    |
| Total allowance for credit losses        | \$527,571 | \$243,422 | \$54,653 | \$825,646 |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The ALLL and outstanding loan balances according to the Company's impairment method are summarized as follows:  
March 31, 2015

| (In thousands)  | Commercial   | Commercial<br>real estate | Consumer    | Total        |
|---|--------------|---------------------------|-------------|--------------|
| Allowance for loan losses:                            |              |                           |             |              |
| Individually evaluated for impairment                 | \$38,382     | \$5,326                   | \$9,437     | \$53,145     |
| Collectively evaluated for impairment                 | 402,597      | 126,231                   | 36,602      | 565,430      |
| Purchased loans with evidence of credit deterioration | 1,093        | 58                        | 287         | 1,438        |
| Total   | \$442,072    | \$131,615                 | \$46,326    | \$620,013    |
| Outstanding loan balances:                            |              |                           |             |              |
| Individually evaluated for impairment                 | \$305,678    | \$141,470                 | \$88,073    | \$535,221    |
| Collectively evaluated for impairment                 | 21,156,592   | 9,917,574                 | 8,407,837   | 39,482,003   |
| Purchased loans with evidence of credit deterioration | 73,720       | 74,027                    | 15,143      | 162,890      |
| Total   | \$21,535,990 | \$10,133,071              | \$8,511,053 | \$40,180,114 |

December 31, 2014

| (In thousands)  | Commercial   | Commercial<br>real estate | Consumer    | Total        |
|---|--------------|---------------------------|-------------|--------------|
| Allowance for loan losses:                            |              |                           |             |              |
| Individually evaluated for impairment                 | \$28,627     | \$4,027                   | \$9,059     | \$41,713     |
| Collectively evaluated for impairment                 | 382,552      | 140,090                   | 37,508      | 560,150      |
| Purchased loans with evidence of credit deterioration | 1,335        | 892                       | 573         | 2,800        |
| Total   | \$412,514    | \$145,009                 | \$47,140    | \$604,663    |
| Outstanding loan balances:                            |              |                           |             |              |
| Individually evaluated for impairment                 | \$259,207    | \$167,435                 | \$95,267    | \$521,909    |
| Collectively evaluated for impairment                 | 21,105,217   | 9,861,862                 | 8,395,371   | 39,362,450   |
| Purchased loans with evidence of credit deterioration | 79,940       | 83,711                    | 15,648      | 179,299      |
| Total   | \$21,444,364 | \$10,113,008              | \$8,506,286 | \$40,063,658 |

## Nonaccrual and Past Due Loans

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

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

Closed-end loans with payments scheduled monthly are reported as past due when the borrower is in arrears for two or more monthly payments. Similarly, open-end credit such as charge-card plans and other revolving credit plans are

reported as past due when the minimum payment has not been made for two or more billing cycles. Other multi-payment obligations (i.e., quarterly, semiannual, etc.), single payment, and demand notes are reported as past due when either principal or interest is due and unpaid for a period of 30 days or more.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

Nonaccrual loans are summarized as follows:

| (In thousands)                              | March 31,<br>2015 | December 31,<br>2014 |
|---|-------------------|----------------------|
| Commercial:                                 |                   |                      |
| Commercial and industrial                   | \$ 163,499        | \$ 105,591           |
| Leasing                                     | 247               | 295                  |
| Owner occupied                              | 97,609            | 87,243               |
| Municipal                                   | 1,027             | 1,056                |
| Total commercial                            | 262,382           | 194,185              |
| Commercial real estate:                     |                   |                      |
| Construction and land development           | 22,101            | 23,880               |
| Term  | 37,517            | 25,107               |
| Total commercial real estate                | 59,618            | 48,987               |
| Consumer:                                   |                   |                      |
| Home equity credit line                     | 10,337            | 11,430               |
| 1-4 family residential                      | 48,078            | 49,861               |
| Construction and other consumer real estate | 1,301             | 1,735                |
| Bankcard and other revolving plans          | 318               | 196                  |
| Other                                       | 32                | 254                  |
| Total consumer loans                        | 60,066            | 63,476               |
| Total                                       | \$ 382,066        | \$ 306,648           |

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

March 31, 2015

| (In thousands)                                 | Current       | 30-89 days<br>past due | 90+ days<br>past due | Total<br>past due | Total<br>loans | Accruing<br>loans<br>90+ days<br>past due | Nonaccrual<br>loans<br>that are<br>current <sup>1</sup> |
|--|---------------|------------------------|----------------------|-------------------|----------------|---|---|
| Commercial:                                    |               |                        |                      |                   |                |   |   |
| Commercial and industrial                      | \$ 13,182,403 | \$ 42,881              | \$ 38,808            | \$ 81,689         | \$ 13,264,092  | \$ 2,969                                  | \$ 109,978  |
| Leasing  | 406,902       | 208                    | 27                   | 235               | 407,137        | —   | 197   |
| Owner occupied                                 | 7,222,254     | 44,380                 | 43,005               | 87,385            | 7,309,639      | 2,247                                     | 40,515  |
| Municipal                                      | 553,002       | 2,120                  | —                    | 2,120             | 555,122        | —   | 1,027   |
| Total commercial                               | 21,364,561    | 89,589                 | 81,840               | 171,429           | 21,535,990     | 5,216                                     | 151,717   |
| Commercial real estate:                        |               |                        |                      |                   |                |   |   |
| Construction and land<br>development           | 2,027,240     | 4,114                  | 13,287               | 17,401            | 2,044,641      | 2,590                                     | 11,338  |
| Term   | 8,038,106     | 17,208                 | 33,116               | 50,324            | 8,088,430      | 21,910                                    | 23,398  |
| Total commercial real estate                   | 10,065,346    | 21,322                 | 46,403               | 67,725            | 10,133,071     | 24,500                                    | 34,736  |
| Consumer:                                      |               |                        |                      |                   |                |   |   |
| Home equity credit line                        | 2,302,583     | 4,522                  | 7,701                | 12,223            | 2,314,806      | —   | 1,103   |
| 1-4 family residential                         | 5,181,356     | 12,780                 | 18,827               | 31,607            | 5,212,963      | 268                                       | 22,781  |
| Construction and other<br>consumer real estate | 361,483       | 10,682                 | 1,170                | 11,852            | 373,335        | 556                                       | 664   |
| Bankcard and other<br>revolving plans          | 402,775       | 2,859                  | 1,089                | 3,948             | 406,723        | 951                                       | 98  |

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|                      |              |           |           |           |              |          |           |
|----------------------|--------------|-----------|-----------|-----------|--------------|----------|-----------|
| Other                | 202,276      | 889       | 61        | 950       | 203,226      | 61       | 27        |
| Total consumer loans | 8,450,473    | 31,732    | 28,848    | 60,580    | 8,511,053    | 1,836    | 24,673    |
| Total                | \$39,880,380 | \$142,643 | \$157,091 | \$299,734 | \$40,180,114 | \$31,552 | \$211,126 |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)                                 | December 31, 2014 |                        |                      |                   |                | Accruing<br>loans<br>90+ days<br>past due | Nonaccrual<br>loans<br>that are<br>current <sup>1</sup> |
|--|-------------------|------------------------|----------------------|-------------------|----------------|---|---|
|  | Current           | 30-89 days<br>past due | 90+ days<br>past due | Total<br>past due | Total<br>loans |   |   |
| <b>Commercial:</b>                             |                   |                        |                      |                   |                |   |   |
| Commercial and industrial                      | \$ 13,092,731     | \$ 28,295              | \$ 41,929            | \$ 70,224         | \$ 13,162,955  | \$ 4,677                                  | \$ 64,385   |
| Leasing  | 408,724           | 225                    | 25                   | 250               | 408,974        | —   | 270   |
| Owner occupied                                 | 7,275,842         | 29,182                 | 46,524               | 75,706            | 7,351,548      | 3,334                                     | 39,649  |
| Municipal                                      | 520,887           | —                      | —                    | —                 | 520,887        | —   | 1,056   |
| Total commercial                               | 21,298,184        | 57,702                 | 88,478               | 146,180           | 21,444,364     | 8,011                                     | 105,360   |
| <b>Commercial real estate:</b>                 |                   |                        |                      |                   |                |   |   |
| Construction and land<br>development           | 1,972,206         | 2,711                  | 11,491               | 14,202            | 1,986,408      | 92  | 12,481  |
| Term   | 8,082,940         | 14,415                 | 29,245               | 43,660            | 8,126,600      | 19,700                                    | 13,787  |
| Total commercial real estate                   | 10,055,146        | 17,126                 | 40,736               | 57,862            | 10,113,008     | 19,792                                    | 26,268  |
| <b>Consumer:</b>                               |                   |                        |                      |                   |                |   |   |
| Home equity credit line                        | 2,309,967         | 4,503                  | 6,680                | 11,183            | 2,321,150      | 1   | 1,779   |
| 1-4 family residential                         | 5,163,610         | 12,416                 | 24,856               | 37,272            | 5,200,882      | 318                                       | 20,599  |
| Construction and other<br>consumer real estate | 359,723           | 9,675                  | 1,144                | 10,819            | 370,542        | 160                                       | 608   |
| Bankcard and other<br>revolving plans          | 397,882           | 2,425                  | 1,045                | 3,470             | 401,352        | 946                                       | 80  |
| Other  | 211,560           | 644                    | 156                  | 800               | 212,360        | —   | 84  |
| Total consumer loans                           | 8,442,742         | 29,663                 | 33,881               | 63,544            | 8,506,286      | 1,425                                     | 23,150  |
| Total  | \$ 39,796,072     | \$ 104,491             | \$ 163,095           | \$ 267,586        | \$ 40,063,658  | \$ 29,228                                 | \$ 154,778  |

<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.

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.

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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)                              | March 31, 2015 |                    |                  |           |                | Total<br>loans     | Total<br>allowance |
|---|----------------|--------------------|------------------|-----------|----------------|--------------------|--------------------|
|   | Pass           | Special<br>Mention | Sub-<br>standard | Doubtful  |                |                    |                    |
| <b>Commercial:</b>                          |                |                    |                  |           |                |                    |                    |
| Commercial and industrial                   | \$ 12,342,163  | \$ 325,604         | \$ 587,272       | \$ 9,053  | \$ 13,264,092  |                    |                    |
| Leasing                                     | 388,843        | 11,656             | 6,638            | —         | 407,137        |                    |                    |
| Owner occupied                              | 6,851,794      | 111,853            | 345,992          | —         | 7,309,639      |                    |                    |
| Municipal                                   | 552,874        | 1,221              | 1,027            | —         | 555,122        |                    |                    |
| Total commercial                            | 20,135,674     | 450,334            | 940,929          | 9,053     | 21,535,990     |                    | \$ 442,072         |
| <b>Commercial real estate:</b>              |                |                    |                  |           |                |                    |                    |
| Construction and land development           | 1,994,072      | 8,515              | 42,054           | —         | 2,044,641      |                    |                    |
| Term  | 7,827,313      | 68,890             | 187,799          | 4,428     | 8,088,430      |                    |                    |
| Total commercial real estate                | 9,821,385      | 77,405             | 229,853          | 4,428     | 10,133,071     |                    | 131,615            |
| <b>Consumer:</b>                            |                |                    |                  |           |                |                    |                    |
| Home equity credit line                     | 2,298,505      | —                  | 16,301           | —         | 2,314,806      |                    |                    |
| 1-4 family residential                      | 5,149,513      | —                  | 63,450           | —         | 5,212,963      |                    |                    |
| Construction and other consumer real estate | 370,817        | —                  | 2,518            | —         | 373,335        |                    |                    |
| Bankcard and other revolving plans          | 404,826        | —                  | 1,897            | —         | 406,723        |                    |                    |
| Other                                       | 202,909        | —                  | 317              | —         | 203,226        |                    |                    |
| Total consumer loans                        | 8,426,570      | —                  | 84,483           | —         | 8,511,053      |                    | 46,326             |
| Total                                       | \$ 38,383,629  | \$ 527,739         | \$ 1,255,265     | \$ 13,481 | \$ 40,180,114  |                    | \$ 620,013         |
| <b>December 31, 2014</b>                    |                |                    |                  |           |                |                    |                    |
| (In thousands)                              | Pass           | Special<br>Mention | Sub-<br>standard | Doubtful  | Total<br>loans | Total<br>allowance |                    |
| <b>Commercial:</b>                          |                |                    |                  |           |                |                    |                    |
| Commercial and industrial                   | \$ 12,515,846  | \$ 209,215         | \$ 426,002       | \$ 11,892 | \$ 13,162,955  |                    |                    |
| Leasing                                     | 399,032        | 4,868              | 5,074            | —         | 408,974        |                    |                    |
| Owner occupied                              | 6,844,310      | 168,423            | 338,815          | —         | 7,351,548      |                    |                    |
| Municipal                                   | 518,513        | 1,318              | 1,056            | —         | 520,887        |                    |                    |
| Total commercial                            | 20,277,701     | 383,824            | 770,947          | 11,892    | 21,444,364     |                    | \$ 412,514         |
| <b>Commercial real estate:</b>              |                |                    |                  |           |                |                    |                    |
| Construction and land development           | 1,925,685      | 8,464              | 52,259           | —         | 1,986,408      |                    |                    |
| Term  | 7,802,571      | 96,347             | 223,324          | 4,358     | 8,126,600      |                    |                    |
| Total commercial real estate                | 9,728,256      | 104,811            | 275,583          | 4,358     | 10,113,008     |                    | 145,009            |
| <b>Consumer:</b>                            |                |                    |                  |           |                |                    |                    |
| Home equity credit line                     | 2,304,352      | —                  | 16,798           | —         | 2,321,150      |                    |                    |

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|   |              |           |             |          |              |           |
|---|--------------|-----------|-------------|----------|--------------|-----------|
| 1-4 family residential                      | 5,138,660    | —         | 62,222      | —        | 5,200,882    |           |
| Construction and other consumer real estate | 367,932      | —         | 2,610       | —        | 370,542      |           |
| Bankcard and other revolving plans          | 399,446      | —         | 1,906       | —        | 401,352      |           |
| Other                                       | 211,811      | —         | 549         | —        | 212,360      |           |
| Total consumer loans                        | 8,422,201    | —         | 84,085      | —        | 8,506,286    | 47,140    |
| Total                                       | \$38,428,158 | \$488,635 | \$1,130,615 | \$16,250 | \$40,063,658 | \$604,663 |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## 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, or if the loan is no longer reported as a TDR, 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 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 months ended March 31, 2015 and 2014 was not significant.

Information on impaired loans individually evaluated is summarized as follows, including the average recorded investment and interest income recognized for the three months ended March 31, 2015 and 2014:

| (In thousands)                              | March 31, 2015           |                                       |                                    |                           |                   |
|---|--------------------------|---------------------------------------|------------------------------------|---------------------------|-------------------|
|   | Unpaid principal balance | Recorded investment with no allowance | Recorded investment with allowance | Total recorded investment | Related allowance |
| Commercial:                                 |                          |                                       |                                    |                           |                   |
| Commercial and industrial                   | \$223,938                | \$34,260                              | \$147,353                          | \$181,613                 | \$30,899          |
| Owner occupied                              | 202,999                  | 102,672                               | 73,403                             | 176,075                   | 7,341             |
| Municipal                                   | 1,505                    | 1,027                                 | —                                  | 1,027                     | —                 |
| Total commercial                            | 428,442                  | 137,959                               | 220,756                            | 358,715                   | 38,240            |
| Commercial real estate:                     |                          |                                       |                                    |                           |                   |
| Construction and land development           | 55,316                   | 12,565                                | 25,897                             | 38,462                    | 1,293             |
| Term  | 180,822                  | 116,700                               | 30,231                             | 146,931                   | 3,550             |
| Total commercial real estate                | 236,138                  | 129,265                               | 56,128                             | 185,393                   | 4,843             |
| Consumer:                                   |                          |                                       |                                    |                           |                   |
| Home equity credit line                     | 29,149                   | 14,491                                | 11,288                             | 25,779                    | 189               |
| 1-4 family residential                      | 80,023                   | 30,356                                | 36,681                             | 67,037                    | 8,885             |
| Construction and other consumer real estate | 3,498                    | 1,310                                 | 1,246                              | 2,556                     | 187               |
| Bankcard and other revolving plans          | —                        | —                                     | —                                  | —                         | —                 |
| Other                                       | 5,825                    | —                                     | 4,674                              | 4,674                     | 95                |
| Total consumer loans                        | 118,495                  | 46,157                                | 53,889                             | 100,046                   | 9,356             |
| Total                                       | \$783,075                | \$313,381                             | \$330,773                          | \$644,154                 | \$52,439          |



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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)                              | December 31, 2014        |                                       |                                    |                           | Related allowance |
|---|--------------------------|---------------------------------------|------------------------------------|---------------------------|-------------------|
|   | Unpaid principal balance | Recorded investment with no allowance | Recorded investment with allowance | Total recorded investment |                   |
| Commercial:                                 |                          |                                       |                                    |                           |                   |
| Commercial and industrial                   | \$ 185,520               | \$ 43,257                             | \$ 103,565                         | \$ 146,822                | \$ 22,852         |
| Owner occupied                              | 198,231                  | 83,179                                | 86,382                             | 169,561                   | 6,087             |
| Municipal                                   | 1,535                    | 1,056                                 | —                                  | 1,056                     | —                 |
| Total commercial                            | 385,286                  | 127,492                               | 189,947                            | 317,439                   | 28,939            |
| Commercial real estate:                     |                          |                                       |                                    |                           |                   |
| Construction and land development           | 60,993                   | 16,500                                | 26,977                             | 43,477                    | 1,773             |
| Term  | 203,788                  | 96,351                                | 63,740                             | 160,091                   | 2,345             |
| Total commercial real estate                | 264,781                  | 112,851                               | 90,717                             | 203,568                   | 4,118             |
| Consumer:                                   |                          |                                       |                                    |                           |                   |
| Home equity credit line                     | 30,209                   | 14,798                                | 11,883                             | 26,681                    | 437               |
| 1-4 family residential                      | 86,575                   | 37,096                                | 35,831                             | 72,927                    | 8,494             |
| Construction and other consumer real estate | 3,902                    | 1,449                                 | 1,410                              | 2,859                     | 233               |
| Bankcard and other revolving plans          | —                        | —                                     | —                                  | —                         | —                 |
| Other                                       | 6,580                    | —                                     | 5,254                              | 5,254                     | 133               |
| Total consumer loans                        | 127,266                  | 53,343                                | 54,378                             | 107,721                   | 9,297             |
| Total                                       | \$ 777,333               | \$ 293,686                            | \$ 335,042                         | \$ 628,728                | \$ 42,354         |

| (In thousands)                              | Three Months Ended March 31, 2015 |                            | Three Months Ended March 31, 2014 |                            |
|---|-----------------------------------|----------------------------|-----------------------------------|----------------------------|
|   | Average recorded investment       | Interest income recognized | Average recorded investment       | Interest income recognized |
| Commercial:                                 |                                   |                            |                                   |                            |
| Commercial and industrial                   | \$ 160,013                        | \$ 1,451                   | \$ 188,191                        | \$ 2,591                   |
| Owner occupied                              | 177,568                           | 4,092                      | 237,902                           | 4,758                      |
| Municipal                                   | 1,033                             | —                          | —                                 | —                          |
| Total commercial                            | 338,614                           | 5,543                      | 426,093                           | 7,349                      |
| Commercial real estate:                     |                                   |                            |                                   |                            |
| Construction and land development           | 38,736                            | 569                        | 66,772                            | 3,538                      |
| Term  | 143,496                           | 5,008                      | 293,802                           | 14,183                     |
| Total commercial real estate                | 182,232                           | 5,577                      | 360,574                           | 17,721                     |
| Consumer:                                   |                                   |                            |                                   |                            |
| Home equity credit line                     | 25,386                            | 413                        | 25,224                            | 402                        |
| 1-4 family residential                      | 66,711                            | 510                        | 83,241                            | 540                        |
| Construction and other consumer real estate | 2,560                             | 42                         | 3,490                             | 38                         |
| Bankcard and other revolving plans          | 2                                 | 100                        | 10                                | 1                          |
| Other                                       | 4,748                             | 285                        | 8,595                             | 494                        |
| Total consumer loans                        | 99,407                            | 1,350                      | 120,560                           | 1,475                      |
| Total                                       | \$ 620,253                        | \$ 12,470                  | \$ 907,227                        | \$ 26,545                  |



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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:

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| (In thousands)                              | March 31, 2015   |                            |                       |                  |                    |  |           |
|---|--|----------------------------|-----------------------|------------------|--------------------|--|-----------|
|   | 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                   | \$2,509  | \$3,462                    | \$ 17                 | \$464            | \$151              | \$ 21,929                                | \$28,532  |
| Owner occupied                              | 19,744   | 1,092                      | 952                   | 1,241            | 10,845             | 17,167                                   | 51,041    |
| Total commercial                            | 22,253   | 4,554                      | 969                   | 1,705            | 10,996             | 39,096                                   | 79,573    |
| Commercial real estate:                     |  |                            |                       |                  |                    |  |           |
| Construction and land development           | —  | —                          | —                     | —                | 510                | 13,712                                   | 14,222    |
| Term  | 7,238  | 1,019                      | 176                   | 973              | 2,289              | 32,729                                   | 44,424    |
| Total commercial real estate                | 7,238  | 1,019                      | 176                   | 973              | 2,799              | 46,441                                   | 58,646    |
| Consumer:                                   |  |                            |                       |                  |                    |  |           |
| Home equity credit line                     | 741  | 84                         | 10,968                | —                | 164                | 1,623                                    | 13,580    |
| 1-4 family residential                      | 2,402  | 366                        | 7,073                 | 442              | 1,381              | 33,676                                   | 45,340    |
| Construction and other consumer real estate | 284  | 416                        | —                     | —                | —                  | 1,226                                    | 1,926     |
| Total consumer loans                        | 3,427  | 866                        | 18,041                | 442              | 1,545              | 36,525                                   | 60,846    |
| Total accruing                              | 32,918   | 6,439                      | 19,186                | 3,120            | 15,340             | 122,062                                  | 199,065   |
| Nonaccruing                                 |  |                            |                       |                  |                    |  |           |
| Commercial:                                 |  |                            |                       |                  |                    |  |           |
| Commercial and industrial                   | 322  | 515                        | —                     | 3,310            | 6,951              | 25,035                                   | 36,133    |
| Owner occupied                              | 2,328  | 1,163                      | —                     | 833              | 2,525              | 11,027                                   | 17,876    |
| Municipal                                   | —  | 1,027                      | —                     | —                | —                  | —  | 1,027     |
| Total commercial                            | 2,650  | 2,705                      | —                     | 4,143            | 9,476              | 36,062                                   | 55,036    |
| Commercial real estate:                     |  |                            |                       |                  |                    |  |           |
| Construction and land development           | 10,901   | 66                         | —                     | 93               | 3,249              | 7,667                                    | 21,976    |
| Term  | 2,780  | —                          | 865                   | 2,170            | —                  | 9,901                                    | 15,716    |
| Total commercial real estate                | 13,681   | 66                         | 865                   | 2,263            | 3,249              | 17,568                                   | 37,692    |
| Consumer:                                   |  |                            |                       |                  |                    |  |           |
| Home equity credit line                     | —  | —                          | 713                   | 203              | —                  | 150                                      | 1,066     |
| 1-4 family residential                      | 207  | 227                        | 2,245                 | 185              | 3,601              | 9,699                                    | 16,164    |
| Construction and other consumer real estate | —  | 243                        | —                     | 76               | —                  | 87                                       | 406       |
| Total consumer loans                        | 207  | 470                        | 2,958                 | 464              | 3,601              | 9,936                                    | 17,636    |
| Total nonaccruing                           | 16,538   | 3,241                      | 3,823                 | 6,870            | 16,326             | 63,566                                   | 110,364   |
| Total                                       | \$49,456   | \$9,680                    | \$ 23,009             | \$9,990          | \$31,666           | \$ 185,628                               | \$309,429 |

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| (In thousands)                              | December 31, 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                   | \$2,611  | \$6,509                    | \$ 18                 | \$3,203          | \$3,855            | \$ 34,585                                | \$50,781  |
| Owner occupied                              | 19,981   | 1,124                      | 960                   | 1,251            | 10,960             | 17,505                                   | 51,781    |
| Total commercial                            | 22,592   | 7,633                      | 978                   | 4,454            | 14,815             | 52,090                                   | 102,562   |
| Commercial real estate:                     |  |                            |                       |                  |                    |  |           |
| Construction and land development           | —  | —                          | —                     | —                | 521                | 19,854                                   | 20,375    |
| Term  | 7,328  | 9,027                      | 179                   | 3,153            | 2,546              | 39,007                                   | 61,240    |
| Total commercial real estate                | 7,328  | 9,027                      | 179                   | 3,153            | 3,067              | 58,861                                   | 81,615    |
| Consumer:                                   |  |                            |                       |                  |                    |  |           |
| Home equity credit line                     | 742  | 70                         | 11,320                | —                | 166                | 1,281                                    | 13,579    |
| 1-4 family residential                      | 2,425  | 552                        | 6,828                 | 446              | 753                | 34,719                                   | 45,723    |
| Construction and other consumer real estate | 290  | 422                        | 42                    | 90               | —                  | 1,227                                    | 2,071     |
| Total consumer loans                        | 3,457  | 1,044                      | 18,190                | 536              | 919                | 37,227                                   | 61,373    |
| Total accruing                              | 33,377   | 17,704                     | 19,347                | 8,143            | 18,801             | 148,178                                  | 245,550   |
| Nonaccruing                                 |  |                            |                       |                  |                    |  |           |
| Commercial:                                 |  |                            |                       |                  |                    |  |           |
| Commercial and industrial                   | 442  | 576                        | —                     | 611              | 5,199              | 20,410                                   | 27,238    |
| Owner occupied                              | 2,714  | 1,219                      | —                     | 883              | 2,852              | 12,040                                   | 19,708    |
| Municipal                                   | —  | 1,056                      | —                     | —                | —                  | —  | 1,056     |
| Total commercial                            | 3,156  | 2,851                      | —                     | 1,494            | 8,051              | 32,450                                   | 48,002    |
| Commercial real estate:                     |  |                            |                       |                  |                    |  |           |
| Construction and land development           | 11,080   | 68                         | —                     | 93               | 3,300              | 6,427                                    | 20,968    |
| Term  | 2,851  | —                          | —                     | —                | 277                | 4,607                                    | 7,735     |
| Total commercial real estate                | 13,931   | 68                         | —                     | 93               | 3,577              | 11,034                                   | 28,703    |
| Consumer:                                   |  |                            |                       |                  |                    |  |           |
| Home equity credit line                     | —  | —                          | 420                   | 203              | —                  | 399                                      | 1,022     |
| 1-4 family residential                      | 3,378  | 1,029                      | 1,951                 | 191              | 3,527              | 9,413                                    | 19,489    |
| Construction and other consumer real estate | —  | 463                        | —                     | —                | —                  | 100                                      | 563       |
| Total consumer loans                        | 3,378  | 1,492                      | 2,371                 | 394              | 3,527              | 9,912                                    | 21,074    |
| Total nonaccruing                           | 20,465   | 4,411                      | 2,371                 | 1,981            | 15,155             | 53,396                                   | 97,779    |
| Total                                       | \$53,842   | \$22,115                   | \$ 21,718             | \$10,124         | \$33,956           | \$ 201,574                               | \$343,329 |

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

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

Unfunded lending commitments on TDRs amounted to approximately \$7.5 million at March 31, 2015 and \$6.1 million at December 31, 2014.





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The total recorded investment of all TDRs in which interest rates were modified below market was \$198.6 million at March 31, 2015 and \$219.3 million at December 31, 2014. 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 |          |
|--|--------------------|----------|
|  | March 31,<br>2015  | 2014     |
| Commercial:                                    |                    |          |
| Commercial and industrial                      | \$(57              | ) \$18   |
| Owner occupied                                 | (112               | ) (142   |
| Total commercial                               | (169               | ) (124   |
| Commercial real estate:                        |                    |          |
| Construction and land development              | (37                | ) (56    |
| Term   | (109               | ) (148   |
| Total commercial real estate                   | (146               | ) (204   |
| Consumer:                                      |                    |          |
| Home equity credit line                        | (1                 | ) (2     |
| 1-4 family residential                         | (271               | ) (300   |
| Construction and other consumer real estate    | (7                 | ) (9     |
| Total consumer loans                           | (279               | ) (311   |
| Total decrease to interest income <sup>1</sup> | \$(594             | ) \$(639 |

<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:

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)                              | Three Months Ended<br>March 31, 2015 |             |         | Three Months Ended<br>March 31, 2014 |             |       |
|---|--------------------------------------|-------------|---------|--------------------------------------|-------------|-------|
|   | Accruing                             | Nonaccruing | Total   | Accruing                             | Nonaccruing | Total |
| Commercial:                                 |                                      |             |         |                                      |             |       |
| Commercial and industrial                   | \$—                                  | \$44        | \$44    | \$—                                  | \$—         | \$—   |
| Owner occupied                              | —                                    | 986         | 986     | —                                    | —           | —     |
| Total commercial                            | —                                    | 1,030       | 1,030   | —                                    | —           | —     |
| Commercial real estate:                     |                                      |             |         |                                      |             |       |
| Construction and land development           | —                                    | 1,284       | 1,284   | —                                    | —           | —     |
| Term  | —                                    | —           | —       | —                                    | 84          | 84    |
| Total commercial real estate                | —                                    | 1,284       | 1,284   | —                                    | 84          | 84    |
| Consumer:                                   |                                      |             |         |                                      |             |       |
| Home equity credit line                     | —                                    | —           | —       | —                                    | 217         | 217   |
| 1-4 family residential                      | 110                                  | —           | 110     | —                                    | —           | —     |
| Construction and other consumer real estate | —                                    | —           | —       | —                                    | 26          | 26    |
| Total consumer loans                        | 110                                  | —           | 110     | —                                    | 243         | 243   |
| Total                                       | \$110                                | \$2,314     | \$2,424 | \$—                                  | \$327       | \$327 |

Note: Total loans modified as TDRs during the 12 months previous to March 31, 2015 and 2014 were \$74.5 million and \$142.4 million, respectively.

As of March 31, 2015, the amount of foreclosed residential real estate property held by the Company was approximately \$4.8 million, and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure was approximately \$10.5 million.

**Concentrations of Credit Risk**

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 risks (whether on- or off-balance sheet) may occur when individual borrowers, groups of borrowers, or counterparties have similar economic characteristics, including industries, geographies, collateral types, sponsors, etc., 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.

We perform an ongoing analysis of our loan portfolio to evaluate whether there is any significant exposure to any concentrations of credit risk. Based on this analysis, we believe that the loan portfolio is generally well diversified; however, there are certain significant concentrations in CRE and energy-related lending. Further, we cannot guarantee that we have fully understood or mitigated all risk concentrations or correlated risks. We have adopted and adhere to concentration limits on various types of CRE lending, particularly construction and land development lending, leveraged and enterprise value lending, municipal lending, and energy-related lending. All of these limits are continually monitored and revised as necessary.

**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. 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

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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.

## Outstanding Balances and Accretable Yield

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

| (In thousands)         | March 31,<br>2015 | December 31,<br>2014 |
|------------------------|-------------------|----------------------|
| Commercial             | \$96,157          | \$104,942            |
| Commercial real estate | 105,234           | 118,217              |
| Consumer               | 17,129            | 17,910               |
| Outstanding balance    | \$218,520         | \$241,069            |
| Carrying amount        | \$162,890         | \$179,299            |
| Less ALLL              | 1,438             | 2,800                |
| Carrying amount, net   | \$161,452         | \$176,499            |

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 March 31, 2015 and were \$5.3 million at December 31, 2014.

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

| (In thousands)                                 | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2015                            | 2014      |
| Balance at beginning of period                 | \$45,055                        | \$77,528  |
| Accretion                                      | (9,583                          | ) (22,307 |
| Reclassification from nonaccretable difference | 13,281                          | 8,920     |
| Disposals and other                            | 2,178                           | 1,624     |
| Balance at end of period                       | \$50,931                        | \$65,765  |

Note: Amounts have been adjusted based on refinements to the original estimates of the accretable yield.

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 included in the overall ALLL in the balance sheet.

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During the three months ended March 31, 2015, and 2014, we adjusted the ALLL for acquired loans by recording a negative provision for loan losses of \$(0.8) million and \$(2.7) million, respectively. The provision is net of the ALLL reversals discussed subsequently.

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

Changes in Cash Flow Estimates

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

For increases in carrying values that resulted from better-than-expected cash flows, we use such increases first to reverse any existing ALLL. During the three months ended March 31, total reversals to the ALLL, including the impact of increases in estimated cash flows, were \$1.4 million in 2015 and \$2.9 million in 2014, 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. Changes that increase cash flows have been due primarily to (1) the enhanced economic status of borrowers compared to original evaluations, (2) improvements in the Southern California market where the majority of these loans were originated, and (3) efforts by our credit officers and loan workout professionals to resolve problem loans.

For the three months ended March 31, the impact of increased cash flow estimates recognized in the statement of income for acquired loans with no ALLL was approximately \$7.4 million in 2015 and \$18.5 million in 2014, respectively, of additional interest income.

## 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

### Objectives

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

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.

### Accounting

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 cash flows, or other types of forecasted transactions,

are considered cash flow hedges. Derivatives used to manage the exposure to risk are considered credit derivatives. When put in place after purchase of the asset(s) to be protected, these derivatives generally may not be designated as accounting hedges.

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

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

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

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

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

Amounts in AOCI are reclassified to interest income as interest is earned on variable rate loans and as amounts for terminated hedges are accreted or amortized to earnings. For the 12 months following March 31, 2015, we estimate that an additional \$3.4 million will be reclassified.

#### Collateral and Credit Risk

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Exposure to credit risk arises from the possibility of nonperformance by counterparties. Financial institutions which are well capitalized and well established are the counterparties for those derivatives entered into for asset liability management and to offset derivatives sold to our customers. The Company reduces its counterparty exposure for derivative contracts by centrally clearing all eligible derivatives.

For those derivatives that are not centrally cleared, the counterparties are typically financial institutions or customers of the Company. For those that are financial institutions, we manage our credit exposure through the use of a Credit Support Annex (“CSA”) to International Swaps and Derivative Association (“ISDA”) master agreements. Eligible collateral types are documented by the CSA and are controlled under the Company’s general credit policies and are typically monitored on a daily basis. A valuation haircut policy reflects the fact that collateral may fall in value between the date the collateral is called and the date of liquidation or enforcement. In practice, all of the Company’s collateral held as credit risk mitigation under a CSA is cash.

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 interest rate risk exposure resulting from such transactions. Most of these customers do not have the capability for centralized clearing. Therefore we manage the credit risk through loan underwriting which includes a credit risk exposure formula for the swap, the same collateral and guarantee protection applicable to the loan and credit approvals, limits, and monitoring procedures. Fee income from customer swaps is included in other service charges, commissions and fees. No significant 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. See Note 6 for further discussion of our underwriting, collateral requirements, and other procedures used to address credit risk.

Our derivative contracts require us to pledge collateral for derivatives that are in a net liability position at a given balance sheet date. Certain of these derivative contracts contain credit-risk-related contingent features that include the requirement to maintain a minimum debt credit rating. We may be required to pledge additional collateral if a credit-risk-related feature were triggered, such as a downgrade of our credit rating. However, in past situations, not all counterparties have demanded that additional collateral be pledged when provided for under their contracts. At March 31, 2015, the fair value of our derivative liabilities was \$81.1 million, for which we were required to pledge cash collateral of approximately \$65.8 million in the normal course of business. If our credit rating were downgraded one notch by either Standard & Poor’s or Moody’s at March 31, 2015, the additional amount of collateral we could be required to pledge is approximately \$1.8 million. As a result of 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.

Derivative Amounts

Selected information with respect to notional amounts and recorded gross fair values at March 31, 2015 and December 31, 2014, and the related gain (loss) of derivative instruments for the three months ended March 31, 2015 and 2014 is summarized as follows:



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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)  | March 31, 2015  |                               |                      | December 31, 2014 |                               |                      |
|---|-----------------|-------------------------------|----------------------|-------------------|-------------------------------|----------------------|
|   | Notional amount | Fair value<br>Other<br>assets | Other<br>liabilities | Notional amount   | Fair value<br>Other<br>assets | Other<br>liabilities |
| Derivatives designated as hedging instruments           |                 |                               |                      |                   |                               |                      |
| Cash flow hedges:                                       |                 |                               |                      |                   |                               |                      |
| Interest rate swaps                                     | \$ 300,000      | \$ 4,623                      | \$—                  | \$ 275,000        | \$ 1,508                      | \$ 123               |
| Total derivatives designated as hedging instruments     | 300,000         | 4,623                         | —                    | 275,000           | 1,508                         | 123                  |
| Derivatives not designated as hedging instruments       |                 |                               |                      |                   |                               |                      |
| Interest rate swaps for customers <sup>2</sup>          | 3,048,760       | 58,982                        | 62,452               | 2,770,052         | 48,287                        | 50,669               |
| Foreign exchange  | 355,708         | 20,373                        | 18,671               | 443,721           | 16,625                        | 15,272               |
| Total derivatives not designated as hedging instruments | 3,404,468       | 79,355                        | 81,123               | 3,213,773         | 64,912                        | 65,941               |
| Total derivatives                                       | \$ 3,704,468    | \$ 83,978                     | \$ 81,123            | \$ 3,488,773      | \$ 66,420                     | \$ 66,064            |

Three Months Ended March 31, 2015                      Three Months Ended March 31, 2014

Amount of derivative gain (loss) recognized/reclassified

| (In thousands)  | OCI      | Reclassified from AOCI to interest income <sup>3</sup> |                            |        | OCI    | Reclassified from AOCI to interest income <sup>3</sup> |                            |          |
|---|----------|--|----------------------------|--------|--------|--|----------------------------|----------|
|   |          | Noninterest income (expense)                           | Offset to interest expense |        |        | Noninterest income (expense)                           | Offset to interest expense |          |
| Derivatives designated as hedging instruments           |          |  |                            |        |        |  |                            |          |
| Asset derivatives                                       |          |  |                            |        |        |  |                            |          |
| Cash flow hedges <sup>1</sup> :                         |          |  |                            |        |        |  |                            |          |
| Interest rate swaps                                     | \$ 4,253 | \$ 1,016   | \$—                        | \$ 538 | \$ 351 | \$—  |                            |          |
|   | 4,253    | 1,016  | —                          | 538    | 351    | —  |                            |          |
| Liability derivatives                                   |          |  |                            |        |        |  |                            |          |
| Fair value hedges:                                      |          |  |                            |        |        |  |                            |          |
| Terminated swaps on long-term debt                      |          |  |                            | \$ 468 |        |  |                            | \$ 718   |
| Total derivatives designated as hedging instruments     | 4,253    | 1,016  | —                          | 468    | 538    | 351  | —                          | 718      |
| Derivatives not designated as hedging instruments       |          |  |                            |        |        |  |                            |          |
| Interest rate swaps                                     |          |  | —                          |        |        |  | 6                          |          |
| Interest rate swaps for customers <sup>2</sup>          |          |  | 517                        |        |        |  | (549)                      | )        |
| Futures contracts                                       |          |  | 1                          |        |        |  | —                          |          |
| Foreign exchange  |          |  | 2,735                      |        |        |  | 1,711                      |          |
| Total return swap                                       |          |  | —                          |        |        |  | (7,427)                    | )        |
| Total derivatives not designated as hedging instruments |          |  | 3,253                      |        |        |  | (6,259)                    | )        |
| Total derivatives                                       | \$ 4,253 | \$ 1,016   | \$ 3,253                   | \$ 468 | \$ 538 | \$ 351   | \$ (6,259)                 | ) \$ 718 |

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 AOCI represent the effective portion of the derivative gain.

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

<sup>3</sup> Amounts for the three months ended March 31, 2015 and 2014 of \$1.0 million and \$0.4 million, respectively, are the amounts of reclassification to earnings from AOCI presented in Note 8.

At March 31, the fair values of derivative assets and liabilities were reduced by net credit valuation adjustments of \$3.3 million and \$0.1 million in 2015, and \$1.6 million and \$1.2 million in 2014, respectively. These adjustments are required to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk.

## 8. DEBT AND SHAREHOLDERS' EQUITY

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## ZIONS BANCORPORATION AND SUBSIDIARIES

Long-term debt is summarized as follows:

| (In thousands)   | March 31, 2015 | December 31,<br>2014 |
|--|----------------|----------------------|
| Junior subordinated debentures related to trust preferred securities | \$ 168,043     | \$ 168,043           |
| Convertible subordinated notes                                       | 138,002        | 132,838              |
| Subordinated notes   | 335,341        | 335,798              |
| Senior notes   | 424,901        | 432,385              |
| FHLB advances  | 22,009         | 22,156               |
| Capital lease obligations and other                                  | 1,025          | 1,062                |
| Total  | \$ 1,089,321   | \$ 1,092,282         |

The preceding carrying values represent the par value of the debt adjusted for any unamortized premium or discount or other basis adjustments, including the value of associated hedges.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

Maturities of long-term debt in 2015 include the following:

| (Amounts in thousands)        | Coupon rate | Carrying value<br>March 31, 2015 | Maturity           |
|-------------------------------|-------------|----------------------------------|--------------------|
| Convertible subordinated note | 6.00%       | \$73,397                         | September 15, 2015 |
| Subordinated note             | 6.00%       | 32,706                           | September 15, 2015 |
| Convertible subordinated note | 5.50%       | 64,606                           | November 16, 2015  |
| Subordinated note             | 5.50%       | 52,744                           | November 16, 2015  |
|                               |             | \$223,453                        |                    |

In addition, at March 31, 2015, we have optional early redemptions totaling \$30.3 million for long-term senior notes as follows: \$19.2 million on May 30, 2015 and \$11.1 million on June 30, 2016. We have given notice that we will redeem in full the \$19.2 million of senior notes. During the first quarter of 2015, we redeemed \$8 million of senior notes.

## Basel III Capital Framework

Effective January 1, 2015, we adopted the new Basel III capital framework that was issued by the Federal Reserve for U.S. banking organizations. We adopted the new capital rules on a 2015 phase-in basis and will adopt the fully phased-in requirements effective January 1, 2019. As of March 31, 2015, we made the “opt-out” election with respect to the regulatory capital treatment of AOCI under the Basel III framework.

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.

## 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 derivatives and other | Pension and post-retirement | Total         |
|--|--|--|-----------------------------|---------------|
| Three Months Ended March 31, 2015                                      |  |  |                             |               |
| Balance at December 31, 2014   | \$ (91,921 )   | \$ 2,226   | \$ (38,346 )                | \$ (128,041 ) |
| Other comprehensive income before reclassifications, net of tax        | 11,424   | 2,189  | —                           | 13,613        |
| Amounts reclassified from AOCI, net of tax                             | 148  | (629 )   | —                           | (481 )        |
| Other comprehensive income   | 11,572   | 1,560  | —                           | 13,132        |
| Balance at March 31, 2015  | \$ (80,349 )   | \$ 3,786   | \$ (38,346 )                | \$ (114,909 ) |
| Income tax expense included in other comprehensive income              | \$ 6,957   | \$ 1,088   | \$ —                        | \$ 8,045      |
| Three Months Ended March 31, 2014                                      |  |  |                             |               |
| Balance at December 31, 2013   | \$ (168,805 )  | \$ 1,556   | \$ (24,852 )                | \$ (192,101 ) |
| Other comprehensive income (loss) before reclassifications, net of tax | 73,907   | (2,521 )   | —                           | 71,386        |
| Amounts reclassified from AOCI, net of tax                             | (24,537 )  | (210 )   | —                           | (24,747 )     |
| Other comprehensive income (loss)                                      | 49,370   | (2,731 )   | —                           | 46,639        |

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|  |              |            |             |              |
|--|--------------|------------|-------------|--------------|
| Balance at March 31, 2014  | \$(119,435 ) | \$(1,175 ) | \$(24,852 ) | \$(145,462 ) |
| Income tax expense (benefit) included in other comprehensive income (loss) | \$40,396     | \$(1,683 ) | \$ —        | \$38,713     |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)   | Amounts reclassified<br>from AOCI <sup>1</sup> |            | Statement<br>of income   |  |
|--|--|------------|--------------------------|--|
|  | Three Months Ended<br>March 31,                |            | (SI)                     |  |
| Details about AOCI components  | 2015   | 2014       | Balance<br>sheet<br>(BS) | Affected line item                             |
| Net realized gains (losses) on investment securities                                     | \$(239   | ) \$30,914 | SI                       | Fixed income securities gains (losses), net    |
| Income tax expense (benefit)   | (91  | ) 6,074    |                          |  |
|  | (148   | ) 24,840   |                          |  |
| Net unrealized losses on investment securities   | —  | (27        | ) SI                     | Net impairment losses on investment securities |
| Income tax benefit   | —  | (10        | )                        |  |
|  | —  | (17        | )                        |  |
| Accretion of securities with noncredit-related impairment losses not expected to be sold | —  | (482       | ) BS                     | Investment securities, held-to-maturity        |
| Deferred income taxes  | —  | 196        | BS                       | Other assets                                   |
|  | \$(148   | ) \$24,537 |                          |  |
| Net unrealized gains on derivative instruments   | \$1,016  | \$351      | SI                       | Interest and fees on loans                     |
| Income tax expense   | 387  | 141        |                          |  |
|  | \$629  | \$210      |                          |  |

<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.

**9. INCOME TAXES**

The income tax expense rate for the three months ended March 31, 2015 and 2014 was lower than the blended statutory rate of 38.25% primarily because of the nontaxability of certain income items.

Net deferred tax assets were approximately \$213 million at March 31, 2015 and \$224 million at December 31, 2014.

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 March 31, 2015.

**10. FAIR VALUE**

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.

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### ZIONS BANCORPORATION AND SUBSIDIARIES

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 Committee (“SVC”) comprised of executive management appointed by the Board of Directors. The SVC 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 SVC also requires quarterly back testing of certain significant assumptions. A Model Risk Management Group conducts model validations, including internal models, and sets policies and procedures for revalidation, including the timing of revalidation.

#### Third Party Service Providers

We use a third party pricing service to provide pricing for approximately 90% 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. Absent observable trade data, we do not adjust prices from our third party sources.

For Level 3 securities, we review and evaluate on a quarterly basis the relevant modeling assumptions. These include PDs, LGD 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.

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 Baa municipal curves, as well as FHLB and London





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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.

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 downside variability for this purpose is a measure of the downside variability of cash flows from the mean estimate of cash flow.

In addition to the trust preferred CDOs, we hold two single-name bank trust preferred securities, which were both transferred to Level 2 from Level 3 during the first quarter of 2014.

Mutual funds and other

Mutual funds and other securities are measured under Level 1 or Level 2. For Level 1, quoted market prices are used which may include net asset values or their equivalents. Level 2 valuations generally use quoted prices for similar securities.

Trading account

Securities in the trading account are measured under Level 1 using quoted market prices. If not available, quoted prices under Level 2 for similar securities are used.

Bank-Owned Life Insurance

Bank-owned life insurance is measured under Level 2 according to cash surrender values (“CSVs”) of the insurance policies that are provided by a third party service. Nearly all policies are general account policies with CSVs based on the Company’s claims on the assets of the insurance companies. The insurances companies’ 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.

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Private Equity Investments

Private equity investments are measured under Level 3. The Equity Investments Committee, consisting of executives familiar with the investments, reviews periodic financial information, including audited financial statements when available. Certain analytics may be employed that include current and projected financial performance, recent financing activities, economic and market conditions, market comparables, market liquidity, sales restrictions, and other factors. The amount of unfunded commitments to invest is disclosed in Note 11. Certain restrictions apply for the redemption of these investments and certain investments are prohibited by the Volcker Rule. See discussions in Notes 5 and 11.

Agriculture Loan Servicing

This asset results from our servicing of agriculture loans approved and funded by FAMC. 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 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 consist of shares of registered investment companies. These mutual funds are valued under Level 1 at quoted market prices, which represents the NAV 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, included in "Federal funds and other short-term borrowings" on the balance sheet, are measured under Level 1 using quoted market prices. If not available, quoted prices under Level 2 for similar securities are used.

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## 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)                                      | March 31, 2015 |             |           | Total       |
|---|----------------|-------------|-----------|-------------|
|   | Level 1        | Level 2     | Level 3   |             |
| <b>ASSETS</b>                                       |                |             |           |             |
| Investment securities:                              |                |             |           |             |
| Available-for-sale:                                 |                |             |           |             |
| U.S. Treasury, agencies and corporations            | \$—            | \$3,655,221 | \$—       | \$3,655,221 |
| Municipal securities                                |                | 173,145     | 2,465     | 175,610     |
| Asset-backed securities:                            |                |             |           |             |
| Trust preferred – banks and insurance               |                | 23,179      | 438,338   | 461,517     |
| Other   |                | 638         | 4,826     | 5,464       |
| Mutual funds and other                              | 124,443        | 28,247      |           | 152,690     |
|   | 124,443        | 3,880,430   | 445,629   | 4,450,502   |
| Trading account                                     |                | 71,392      |           | 71,392      |
| Other noninterest-bearing investments:              |                |             |           |             |
| Bank-owned life insurance                           |                | 478,926     |           | 478,926     |
| Private equity                                      |                |             | 107,448   | 107,448     |
| Other assets:                                       |                |             |           |             |
| Agriculture loan servicing and interest-only strips |                |             | 12,001    | 12,001      |
| Deferred compensation plan assets                   | 91,368         |             |           | 91,368      |
| Derivatives:  |                |             |           |             |
| Interest rate related and other                     |                | 5,408       |           | 5,408       |
| Interest rate swaps for customers                   |                | 58,982      |           | 58,982      |
| Foreign currency exchange contracts                 | 20,373         |             |           | 20,373      |
|   | 20,373         | 64,390      | —         | 84,763      |
|   | \$236,184      | \$4,495,138 | \$565,078 | \$5,296,400 |
| <b>LIABILITIES</b>                                  |                |             |           |             |
| Securities sold, not yet purchased                  | \$6,749        | \$—         | \$—       | \$6,749     |
| Other liabilities:                                  |                |             |           |             |
| Deferred compensation plan obligations              | 91,368         |             |           | 91,368      |
| Derivatives:  |                |             |           |             |
| Interest rate related and other                     |                | 176         |           | 176         |
| Interest rate swaps for customers                   |                | 62,452      |           | 62,452      |
| Foreign currency exchange contracts                 | 18,671         |             |           | 18,671      |
|   | 18,671         | 62,628      | —         | 81,299      |
|   | \$116,788      | \$62,628    | \$—       | \$179,416   |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)                                      | December 31, 2014 |             |           | Total       |
|---|-------------------|-------------|-----------|-------------|
|   | Level 1           | Level 2     | Level 3   |             |
| <b>ASSETS</b>                                       |                   |             |           |             |
| Investment securities:                              |                   |             |           |             |
| Available-for-sale:                                 |                   |             |           |             |
| U.S. Treasury, agencies and corporations            | \$—               | \$3,098,208 | \$—       | \$3,098,208 |
| Municipal securities                                |                   | 185,093     | 4,164     | 189,257     |
| Asset-backed securities:                            |                   |             |           |             |
| Trust preferred – banks and insurance               |                   | 22,701      | 393,007   | 415,708     |
| Auction rate  |                   |             | 4,761     | 4,761       |
| Other   |                   | 666         | 25        | 691         |
| Mutual funds and other                              | 105,348           | 30,275      |           | 135,623     |
|   | 105,348           | 3,336,943   | 401,957   | 3,844,248   |
| Trading account                                     |                   | 70,601      |           | 70,601      |
| Other noninterest-bearing investments:              |                   |             |           |             |
| Bank-owned life insurance                           |                   | 476,290     |           | 476,290     |
| Private equity                                      |                   |             | 99,865    | 99,865      |
| Other assets:                                       |                   |             |           |             |
| Agriculture loan servicing and interest-only strips |                   |             | 12,227    | 12,227      |
| Deferred compensation plan assets                   | 88,878            |             |           | 88,878      |
| Derivatives:  |                   |             |           |             |
| Interest rate related and other                     |                   | 1,508       |           | 1,508       |
| Interest rate swaps for customers                   |                   | 48,287      |           | 48,287      |
| Foreign currency exchange contracts                 | 16,625            |             |           | 16,625      |
|   | 16,625            | 49,795      | —         | 66,420      |
|   | \$210,851         | \$3,933,629 | \$514,049 | \$4,658,529 |
| <b>LIABILITIES</b>                                  |                   |             |           |             |
| Securities sold, not yet purchased                  | \$24,230          | \$—         | \$—       | \$24,230    |
| Other liabilities:                                  |                   |             |           |             |
| Deferred compensation plan obligations              | 88,878            |             |           | 88,878      |
| Derivatives:  |                   |             |           |             |
| Interest rate related and other                     |                   | 297         |           | 297         |
| Interest rate swaps for customers                   |                   | 50,669      |           | 50,669      |
| Foreign currency exchange contracts                 | 15,272            |             |           | 15,272      |
|   | 15,272            | 50,966      | —         | 66,238      |
| Other   |                   |             | 13        | 13          |
|   | \$128,380         | \$50,966    | \$13      | \$179,359   |

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.



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## ZIONS BANCORPORATION AND SUBSIDIARIES

## Reconciliation of Level 3 Fair Value Measurements

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

| (In thousands)  | Level 3 Instruments<br>Three Months Ended March 31, 2015 |                                       |                        |         |                            |                                  |                                   |
|---|--|---------------------------------------|------------------------|---------|----------------------------|----------------------------------|-----------------------------------|
|   | Municipal securities                                     | Trust preferred – banks and insurance | Trust preferred – REIT | Other   | Private equity investments | Ag loan svcg and int-only strips | Derivatives and other liabilities |
| Balance at December 31, 2014                                    | \$4,164  | \$393,007                             | \$—                    | \$4,786 | \$99,865                   | \$12,227                         | \$(13 )                           |
| Net gains (losses) included in:                                 |  |                                       |                        |         |                            |                                  |                                   |
| Statement of income:  |  |                                       |                        |         |                            |                                  |                                   |
| Accretion of purchase discount on securities available-for-sale | 2  | 257                                   |                        |         |                            |                                  |                                   |
| Dividends and other investment income                           |  |                                       |                        |         | 1,074                      |                                  |                                   |
| Equity securities losses, net                                   |  |                                       |                        |         | 3,253                      |                                  |                                   |
| Fixed income securities gains (losses), net                     | 31   | (323 )                                |                        |         |                            |                                  |                                   |
| Other noninterest income  |  |                                       |                        |         |                            | 4                                |                                   |
| Other noninterest expense                                       |  |                                       |                        |         |                            |                                  | 13                                |
| Other comprehensive income (loss)                               | 127  | (6,949 )                              |                        | 42      |                            |                                  |                                   |
| Fair value of HTM securities reclassified as AFS                |  | 57,308                                |                        |         |                            |                                  |                                   |
| Purchases   |  |                                       |                        |         | 5,052                      | 171                              |                                   |
| Sales   |  | (2,613 )                              |                        |         | (1,517 )                   |                                  |                                   |
| Redemptions and paydowns  | (1,859 )   | (2,349 )                              |                        | (2 )    | (279 )                     | (401 )                           |                                   |
| Balance at March 31, 2015                                       | \$2,465  | \$438,338                             | \$—                    | \$4,826 | \$107,448                  | \$12,001                         | \$—                               |

| (In thousands)  | Level 3 Instruments<br>Three Months Ended March 31, 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 | 10   | 720                                   |                        | 1            |                    |                            |                                  |                                   |
| Dividends and other investment income                           |  |                                       |                        |              |                    | (1,695 )                   |                                  |                                   |

|   |           |            |           |          |           |           |           |            |
|---|-----------|------------|-----------|----------|-----------|-----------|-----------|------------|
| Fair value and nonhedge derivative loss |           |            |           |          |           |           |           | (7,427 )   |
| Fixed income securities gains, net      | 16        | 18,582     | 1,399     |          | 10,917    |           |           |            |
| Other noninterest income                |           |            |           |          |           |           | 481       |            |
| Other noninterest expense               |           |            |           |          |           |           |           | 8          |
| Other comprehensive income (loss)       | (274 )    | 94,462     |           | (40 )    | (15 )     |           |           |            |
| Purchases                               |           |            |           |          |           | 1,356     | 2,077     |            |
| Sales                                   |           | (546,388 ) | (24,395 ) |          | (36,669 ) | (824 )    |           |            |
| Redemptions and paydowns                | (230 )    | (46,786 )  |           |          | (3 )      | (195 )    | (203 )    | 6,090      |
| Transfers to Level 2                    |           | (69,193 )  |           |          |           |           |           |            |
| Balance at March 31, 2014               | \$ 10,184 | \$ 690,217 | \$—       | \$ 6,560 | \$ 30     | \$ 81,052 | \$ 11,207 | \$(5,632 ) |



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## ZIONS BANCORPORATION AND SUBSIDIARIES

The preceding reconciling amounts using Level 3 inputs include the following realized amounts in the statement of income:

| (In thousands)                              | Three Months Ended March 31, |          |
|---|------------------------------|----------|
|   | 2015                         | 2014     |
| Dividends and other investment income       | \$—                          | \$34     |
| Fixed income securities gains (losses), net | (292                         | ) 30,914 |

Except as previously discussed, no other transfers of assets or liabilities occurred among Levels 1, 2 or 3 for the three months ended March 31, 2015 and 2014. 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                        |  |   | Range of inputs (% annually)  |
|---------------------------------------|--|--|---|---|
|                                       | Quantitative information at March 31, 2015 | Principal valuation techniques             | Significant unobservable inputs   |   |
| Asset-backed securities:              |  |  |   |   |
| Trust preferred – predominantly banks | \$438,338                                  | Discounted cash flow<br>Market comparables | Constant prepayment rate<br><br>Constant default rate<br><br>Loss given default<br>Loss given deferral<br>Discount rate (spread over forward LIBOR) | until maturity – 2.0%<br><br>yr 1 – 0.3% to 0.5%<br>yrs 2-5 – 0.5% to 0.7%<br>yrs 6 to maturity – 0.6% to 0.7%<br>100%<br>11.9% to 100%<br>3.7% to 5.4% |

| (Dollar amounts in thousands)         | Level 3 Instruments                           |  |   | Range of inputs (% annually)   |
|---------------------------------------|---|--|---|--|
|                                       | Quantitative information at December 31, 2014 | Principal valuation techniques             | Significant unobservable inputs                       |  |
| Asset-backed securities:              |   |  |   |  |
| Trust preferred – predominantly banks | \$393,007                                     | Discounted cash flow<br>Market comparables | Constant prepayment rate<br><br>Constant default rate | until maturity – 2.0%<br><br>yr 1 – 0.3% to 0.8%<br>yrs 2-5 – 0.5% to 0.9% |

|   |                                     |
|---|-------------------------------------|
|   | yrs 6 to maturity – 0.6%<br>to 0.7% |
| Loss given default                              | 100%                                |
| Loss given deferral                             | 14.5% to 100%                       |
| Discount rate<br>(spread over forward<br>LIBOR) | 3.4% to 5.6%                        |

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## 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 during the year-to-date period measured on a nonrecurring basis.

| (In thousands)                              | Fair value at March 31, 2015 |          |         |          | Fair value at December 31, 2014 |          |          |          |
|---|------------------------------|----------|---------|----------|---------------------------------|----------|----------|----------|
|   | Level 1                      | Level 2  | Level 3 | Total    | Level 1                         | Level 2  | Level 3  | Total    |
| <b>ASSETS</b>                               |                              |          |         |          |                                 |          |          |          |
| Private equity investments, carried at cost | \$—                          | \$—      | \$1,997 | \$1,997  | \$—                             | \$—      | \$23,454 | \$23,454 |
| Impaired loans                              | —                            | 9,793    | —       | 9,793    | —                               | 20,494   | —        | 20,494   |
| Other real estate owned                     | —                            | 2,886    | —       | 2,886    | —                               | 8,034    | —        | 8,034    |
|   | \$—                          | \$12,679 | \$1,997 | \$14,676 | \$—                             | \$28,528 | \$23,454 | \$51,982 |

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<br>Three Months Ended |             |
|---|--|-------------|
|   | March 31,<br>2015  | 2014        |
| <b>ASSETS</b>                               |  |             |
| HTM securities adjusted for OTTI            | \$—  | \$(27)      |
| Private equity investments, carried at cost | (1,153)  | ) —         |
| Impaired loans                              | (4,487)  | ) (2,177)   |
| Other real estate owned                     | (1,008)  | ) (2,234)   |
|   | \$(6,648)  | ) \$(4,438) |

During the three months ended March 31, we recognized net gains of \$0.7 million in 2015 and \$1.0 million in 2014 from the sale of other real estate owned (“OREO”) properties that had a carrying value at the time of sale of approximately \$4.1 million and \$10.0 million, respectively. Previous to their sale in these periods, we recognized impairment on these properties of an insignificant amount in 2015 and \$0.2 million in 2014.

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 \$33.3 million at March 31, 2015 and \$39.1 million at December 31, 2014. Amounts of other noninterest-bearing investments carried at cost were \$250.5 million at March 31, 2015 and \$250.7 million at December 31, 2014, 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 initially at fair value based on property appraisals at the time of transfer and subsequently at the lower of cost or fair value.

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.

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## 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)   | March 31, 2015 |                      |       | December 31, 2014 |                      |       |
|--|----------------|----------------------|-------|-------------------|----------------------|-------|
|  | Carrying value | Estimated fair value | Level | Carrying value    | Estimated fair value | Level |
| Financial assets:  |                |                      |       |                   |                      |       |
| HTM investment securities  | \$590,950      | \$602,355            | 3     | \$647,252         | \$677,196            | 3     |
| Loans and leases (including loans held for sale), net of allowance | 39,689,047     | 39,573,365           | 3     | 39,591,499        | 39,426,498           | 3     |
| Financial liabilities:   |                |                      |       |                   |                      |       |
| Time deposits  | 2,344,818      | 2,349,454            | 2     | 2,406,924         | 2,408,550            | 2     |
| Foreign deposits   | 382,985        | 382,873              | 2     | 328,391           | 328,447              | 2     |
| Long-term debt (less fair value hedges)                            | 1,088,285      | 1,149,869            | 2     | 1,090,778         | 1,159,287            | 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, through December 31, 2014, 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.

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## 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)   | March 31,<br>2015 | December 31,<br>2014 |
|--|-------------------|----------------------|
| Net unfunded commitments to extend credit <sup>1</sup> | \$ 16,528,689     | \$ 16,658,757        |
| Standby letters of credit:                             |                   |                      |
| Financial  | 753,853           | 745,895              |
| Performance  | 191,753           | 183,482              |
| Commercial letters of credit                           | 68,807            | 32,144               |
| Total unfunded lending commitments                     | \$ 17,543,102     | \$ 17,620,278        |

<sup>1</sup> Net of participations

The Company's 2014 Annual Report on Form 10-K contains further information about these commitments and guarantees including their terms and collateral requirements. At March 31, 2015, the Company had recorded approximately \$15.0 million as a liability for the guarantees associated with the standby letters of credit, which consisted of \$12.0 million attributable to the RULC and \$3.0 million of deferred commitment fees.

At March 31, 2015, the Parent has guaranteed \$15.0 million of debt of affiliated trusts issuing trust preferred securities.

At March 31, 2015, we had unfunded commitments for private equity investments of approximately \$35 million. These obligations have no stated maturity. Certain PEIs related to these commitments are prohibited by the Volcker Rule. See related discussions about these investments 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. 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. 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.

As of March 31, 2015, we were subject to the following material litigation and governmental inquiries:

- a class action case, *Reyes v. Zions First National Bank, et. al.*, which was brought in the United States District Court for the Eastern District of Pennsylvania. This case relates to our banking relationships with customers that allegedly engaged in wrongful telemarketing practices. The plaintiff is seeking a trebled monetary award under the federal RICO Act. In the third quarter of 2013, the District Court denied the plaintiff's motion for class certification in the Reyes case. The plaintiff appealed the District Court decision to the Third Circuit Court of Appeals. The Third Circuit had not ruled on the appeals as of May 2015.



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ZIONS BANCORPORATION AND SUBSIDIARIES

a governmental inquiry into 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). We are unclear about the status of this inquiry.

a governmental inquiry into 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). This inquiry has been directed towards the banking industry generally, including numerous banks unrelated to us, and had led to a number of enforcement actions. We are unclear about the status of the inquiry as it relates to us.

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. Based on information available as of March 31, 2015, we estimated the aggregate range of reasonably possible losses for those matters to be from \$0 million to roughly \$50 million in excess of amounts accrued. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from this estimate. Those matters for which an estimate is not possible are not included within this estimated range and, therefore, this estimated range does not represent our maximum loss exposure.

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

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)                            | Pension benefits             |          | Supplemental retirement benefits |       | Postretirement benefits |       |
|---|------------------------------|----------|----------------------------------|-------|-------------------------|-------|
|   | Three Months Ended March 31, |          |                                  |       |                         |       |
|   | 2015                         | 2014     | 2015                             | 2014  | 2015                    | 2014  |
| Service cost                              | \$—                          | \$—      | \$—                              | \$—   | \$8                     | \$8   |
| Interest cost                             | 1,783                        | 1,880    | 101                              | 113   | 10                      | 12    |
| Expected return on plan assets            | (3,090 )                     | (3,326 ) |                                  |       |                         |       |
| Amortization of prior service cost        |                              |          |                                  | 13    |                         |       |
| Amortization of net actuarial (gain) loss | 1,574                        | 797      | 31                               | 5     | (13 )                   | (18 ) |
| Net periodic benefit cost (credit)        | \$267                        | \$(649 ) | \$132                            | \$131 | \$5                     | \$2   |

As disclosed in the Company's 2014 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.

## 13. OPERATING SEGMENT INFORMATION

We manage our operations and prepare management reports and other information with a primary focus on geographical area. As of March 31, 2015, we operate eight community/regional banks in distinct geographical areas. Performance assessment and resource allocation are based upon this geographical structure. Zions Bank operates 100 branches in Utah, 25 branches in Idaho, and one branch in Wyoming. CB&T operates 94 branches in California. Amegy operates 80 branches in Texas. NBAZ operates 66 branches in Arizona. NSB operates 50 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. Effective April 1, 2015, TCBO was merged into TCBW.

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. ZMSC provides internal technology and operational services to affiliated operating businesses of the Company. ZMSC charges most of its costs to the affiliates on an approximate break-even basis.

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

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The following schedule presents selected operating segment information for the three months ended March 31, 2015 and 2014:

| (In millions)  | Zions Bank |          | Amegy    |          | CB&T     |          | NBAZ    |         | NSB     |         |
|--|------------|----------|----------|----------|----------|----------|---------|---------|---------|---------|
|  | 2015       | 2014     | 2015     | 2014     | 2015     | 2014     | 2015    | 2014    | 2015    | 2014    |
| <b>CONDENSED INCOME STATEMENT</b>                        |            |          |          |          |          |          |         |         |         |         |
| Net interest income                                      | \$141.1    | \$142.5  | \$96.7   | \$94.7   | \$95.7   | \$109.2  | \$39.0  | \$40.3  | \$28.0  | \$27.9  |
| Provision for loan losses                                | (4.6 )     | (8.7 )   | 11.1     | 16.9     | (4.1 )   | (2.1 )   | 0.7     | (3.0 )  | (8.7 )  | (2.6 )  |
| Net interest income after provision for loan losses      | 145.7      | 151.2    | 85.6     | 77.8     | 99.8     | 111.3    | 38.3    | 43.3    | 36.7    | 30.5    |
| Noninterest income                                       | 46.8       | 44.0     | 34.0     | 32.0     | 16.7     | 5.8      | 8.5     | 8.3     | 9.0     | 4.9     |
| Noninterest expense                                      | 127.4      | 121.5    | 94.0     | 87.0     | 74.4     | 85.3     | 36.9    | 37.3    | 32.1    | 32.1    |
| Income (loss) before income taxes                        | 65.1       | 73.7     | 25.6     | 22.8     | 42.1     | 31.8     | 9.9     | 14.3    | 13.6    | 3.3     |
| Income taxes (benefit)                                   | 23.4       | 26.8     | 8.5      | 7.3      | 16.4     | 12.1     | 3.4     | 5.2     | 4.6     | 1.0     |
| Net income (loss)  | 41.7       | 46.9     | 17.1     | 15.5     | 25.7     | 19.7     | 6.5     | 9.1     | 9.0     | 2.3     |
| Net income (loss) applicable to noncontrolling interests | 0.5        | —        | —        | —        | —        | —        | —       | —       | —       | —       |
| Net income (loss) applicable to controlling interest     | \$41.2     | \$46.9   | \$17.1   | \$15.5   | \$25.7   | \$19.7   | \$6.5   | \$9.1   | \$9.0   | \$2.3   |
| <b>AVERAGE BALANCE SHEET DATA</b>                        |            |          |          |          |          |          |         |         |         |         |
| Total assets   | \$18,573   | \$18,275 | \$13,964 | \$13,467 | \$11,368 | \$10,889 | \$4,825 | \$4,612 | \$4,164 | \$3,991 |
| Cash and due from banks                                  | 297        | 339      | 183      | 322      | 90       | 166      | 49      | 72      | 71      | 88      |
| Money market investments                                 | 2,968      | 3,546    | 2,046    | 2,503    | 1,659    | 1,129    | 396     | 289     | 734     | 700     |
| Total securities   | 2,468      | 1,596    | 285      | 242      | 337      | 327      | 412     | 365     | 840     | 781     |
| Total loans  | 12,180     | 12,247   | 10,276   | 9,362    | 8,502    | 8,538    | 3,764   | 3,696   | 2,384   | 2,306   |
| Total deposits   | 16,160     | 15,980   | 11,478   | 11,099   | 9,701    | 9,273    | 4,178   | 3,952   | 3,755   | 3,598   |
| Shareholder's equity:                                    |            |          |          |          |          |          |         |         |         |         |

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|                            |       |       |       |       |       |       |     |     |     |     |
|----------------------------|-------|-------|-------|-------|-------|-------|-----|-----|-----|-----|
| Preferred equity           | 280   | 280   | 226   | 153   | 162   | 162   | 85  | 120 | 50  | 50  |
| Common equity              | 1,633 | 1,538 | 1,940 | 1,849 | 1,394 | 1,350 | 485 | 422 | 332 | 318 |
| Noncontrolling interests   | 11    | —     | —     | —     | —     | —     | —   | —   | —   | —   |
| Total shareholder's equity | 1,924 | 1,818 | 2,166 | 2,002 | 1,556 | 1,512 | 570 | 542 | 382 | 368 |

|  |        |      |      |      |       |      |                      |      |
|--|--------|------|------|------|-------|------|----------------------|------|
|  | Vectra |      | TCBW |      | Other |      | Consolidated Company |      |
|  | 2015   | 2014 | 2015 | 2014 | 2015  | 2014 | 2015                 | 2014 |

## CONDENSED INCOME STATEMENT

|  |        |        |       |       |          |          |         |         |
|--|--------|--------|-------|-------|----------|----------|---------|---------|
| Net interest income                                      | \$25.7 | \$25.3 | \$6.7 | \$7.0 | \$(15.5) | \$(30.4) | \$417.4 | \$416.5 |
| Provision for loan losses                                | 3.8    | (1.8)  | 0.1   | 0.7   | 0.2      | —        | (1.5)   | (0.6)   |
| Net interest income after provision for loan losses      | 21.9   | 27.1   | 6.6   | 6.3   | (15.7)   | (30.4)   | 418.9   | 417.1   |
| Noninterest income                                       | 5.0    | 3.8    | 0.9   | (1.0) | 0.9      | 40.5     | 121.8   | 138.3   |
| Noninterest expense                                      | 23.9   | 25.3   | 6.9   | 4.5   | 1.9      | 5.1      | 397.5   | 398.1   |
| Income (loss) before income taxes                        | 3.0    | 5.6    | 0.6   | 0.8   | (16.7)   | 5.0      | 143.2   | 157.3   |
| Income taxes (benefit)                                   | 0.7    | 1.8    | 0.2   | 0.3   | (6.0)    | 1.6      | 51.2    | 56.1    |
| Net income (loss)  | 2.3    | 3.8    | 0.4   | 0.5   | (10.7)   | 3.4      | 92.0    | 101.2   |
| Net income (loss) applicable to noncontrolling interests | —      | —      | —     | —     | (0.5)    | —        | —       | —       |
| Net income (loss) applicable to controlling interest     | \$2.3  | \$3.8  | \$0.4 | \$0.5 | \$(10.2) | \$3.4    | \$92.0  | \$101.2 |

## AVERAGE BALANCE SHEET DATA

|                          |         |         |       |       |       |       |          |          |
|--------------------------|---------|---------|-------|-------|-------|-------|----------|----------|
| Total assets             | \$2,977 | \$2,569 | \$896 | \$873 | \$51  | \$758 | \$56,818 | \$55,434 |
| Cash and due from banks  | 29      | 47      | 29    | 21    | (4)   | (17)  | 744      | 1,038    |
| Money market investments | 339     | 14      | 119   | 118   | (248) | (159) | 8,013    | 8,140    |
| Total securities         | 191     | 164     | 71    | 90    | 179   | 552   | 4,783    | 4,117    |
| Total loans              | 2,358   | 2,280   | 661   | 631   | 54    | 65    | 40,179   | 39,125   |

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|                            |       |       |     |     |          |          |        |        |
|----------------------------|-------|-------|-----|-----|----------|----------|--------|--------|
| Total deposits             | 2,568 | 2,168 | 766 | 742 | (1,122 ) | (1,032 ) | 47,484 | 45,780 |
| Shareholder's equity:      |       |       |     |     |          |          |        |        |
| Preferred equity           | 25    | 70    | 3   | 3   | 173      | 166      | 1,004  | 1,004  |
| Common equity              | 317   | 247   | 90  | 88  | 214      | (217 )   | 6,405  | 5,595  |
| Noncontrolling interests   | —     | —     | —   | —   | (11 )    | —        | —      | —      |
| Total shareholder's equity | 342   | 317   | 93  | 91  | 376      | (51 )    | 7,409  | 6,599  |

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ZIONS BANCORPORATION AND SUBSIDIARIES

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

FORWARD-LOOKING INFORMATION

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

statements with respect to the beliefs, plans, objectives, goals, guidelines, expectations, anticipations, and future financial condition, results of operations and performance of Zions Bancorporation ("the Parent") and its subsidiaries (collectively "the Company," "Zions," "we," "our," "us"); 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 and fiscal imbalances in the United States and other countries, potential or actual downgrades in ratings 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 and commodity market prices and 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, and energy-related commodity prices;

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

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

acquisitions and integration of acquired businesses;

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

changes in fiscal, monetary, regulatory, trade and tax policies and laws, and regulatory assessments and fees, including policies of the U.S. Department of Treasury, the OCC, the Board of Governors of the Federal Reserve Board System, and the FDIC, the 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, on our required regulatory capital and liquidity levels, governmental assessments on us, the scope of business activities in which we may engage, the manner in which we engage in such activities, the fees we may charge for certain products and services, and other matters affected by the Dodd-Frank Act and these international standards;

continuing consolidation in the financial services industry;

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

success in gaining regulatory approvals, when required;

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## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

## GLOSSARY OF ACRONYMS

|                |  |          |  |
|----------------|--|----------|--|
| ACL            | Allowance for Credit Losses                                      | FAMC     | Federal Agricultural Mortgage Corporation, or "Farmer Mac" |
| AFS            | Available-for-Sale   | FASB     | Financial Accounting Standards Board                       |
| ALCO           | Asset/Liability Committee  | FDIC     | Federal Deposit Insurance Corporation                      |
| ALLL           | Allowance for Loan and Lease Losses                              | FHLB     | Federal Home Loan Bank                                     |
| Amegy          | Amegy Corporation  | FRB      | Federal Reserve Board                                      |
| AOCI           | Accumulated Other Comprehensive Income                           | GAAP     | Generally Accepted Accounting Principles                   |
| ASC            | Accounting Standards Codification                                | HECL     | Home Equity Credit Line                                    |
| ASU            | Accounting Standards Update                                      | HQLA     | High Quality Liquid Assets                                 |
| ATM            | Automated Teller Machine   | HTM      | Held-to-Maturity   |
| BOLI           | Bank-Owned Life Insurance  | IA       | Indemnification Asset                                      |
| bps            | basis points   | IFRS     | International Financial Reporting Standards                |
| CB&T           | California Bank & Trust  | ISDA     | International Swap and Derivative Association              |
| CCAR           | Comprehensive Capital Analysis and Review                        | LCR      | Liquidity Coverage Ratio                                   |
| CDO            | Collateralized Debt Obligation                                   | LGD      | Loss Given Default   |
| CDR            | Constant Default Rate  | LIBOR    | London Interbank Offered Rate                              |
| CET1           | Common Equity Tier 1 (Basel III)                                 | LIHTC    | Low-Income Housing Tax Credit                              |
| CFPB           | Consumer Financial Protection Bureau                             | Lockhart | Lockhart Funding LLC                                       |
| CLTV           | Combined Loan-to-Value Ratio                                     | MD&A     | Management's Discussion and Analysis                       |
| COSO           | Committee of Sponsoring Organizations of the Treadway Commission | MVE      | Market Value of Equity                                     |
| CRE            | Commercial Real Estate   | NBAZ     | National Bank of Arizona                                   |
| CSA            | Credit Support Annex   | NRSRO    | Nationally Recognized Statistical Rating Organization      |
| CSV            | Cash Surrender Value   | NSFR     | Net Stable Funding Ratio                                   |
| DBRS           | Dominion Bond Rating Service                                     | NSB      | Nevada State Bank  |
| DFAST          | Dodd-Frank Act Stress Test                                       | OCC      | Office of the Comptroller of the Currency                  |
| Dodd-Frank Act | Dodd-Frank Wall Street Reform and Consumer Protection Act        | OCI      | Other Comprehensive Income                                 |
| DTA            | Deferred Tax Asset   | OREO     | Other Real Estate Owned                                    |

|      |                            |      |                                 |
|------|----------------------------|------|---------------------------------|
| EITF | Emerging Issues Task Force | OTC  | Over-the-Counter                |
| EVE  | Economic Value of Equity   | OTTI | Other-Than-Temporary Impairment |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

|        |  |            |  |
|--------|--|------------|--|
| Parent | Zions Bancorporation                     | SVC        | Securitization Valuation Committee     |
| PCI    | Purchase Credit Impaired                 | T1C        | Tier 1 Common (Basel I)                |
| PD     | Probability of Default                   | TCBO       | The Commerce Bank of Oregon            |
| PEI    | Private Equity Investments               | TCBW       | The Commerce Bank of Washington        |
| PIK    | Payment in Kind                          | TDR        | Troubled Debt Restructuring            |
| REIT   | Real Estate Investment Trust             | TRACE®     | Trade Reporting and Compliance Engine® |
| ROC    | Risk Oversight Committee                 | Vectra     | Vectra Bank Colorado                   |
| RULC   | Reserve for Unfunded Lending Commitments | VIE        | Variable Interest Entity               |
| SBA    | Small Business Administration            | VR         | Volcker Rule                           |
| SBIC   | Small Business Investment Company        | Zions Bank | Zions First National Bank              |
| SEC    | Securities and Exchange Commission       | ZFMU       | Zions Municipal Funding                |
| SNC    | Shared National Credit                   | 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 2014 Annual Report on Form 10-K.

## RESULTS OF OPERATIONS

The Company reported net earnings applicable to common shareholders of \$75.3 million, or \$0.37 per diluted common share for the first quarter of 2015, compared to \$76.2 million, or \$0.41 per diluted common share for the same prior year period. The following notable changes had a negative impact on net earnings applicable to common shareholders:

- \$31.2 million decrease in fixed income securities gains, net;
- \$19.1 million decrease in total interest income; and
- \$10.1 million increase in salaries and employee benefits.

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

- \$20.0 million decrease in total interest expense;
- \$14.2 million decrease in other noninterest expense;
- \$8.3 million decrease in dividends on preferred stock;
- \$7.4 million decrease in fair value and nonhedge derivative loss; and
- \$4.9 million decrease in income taxes.

## 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 first quarters of 2015 and 2014, taxable-equivalent net interest income was \$421.6 million and \$420.3 million, respectively, and \$434.8 million for the fourth quarter of 2014. The tax rate used for calculating all taxable-equivalent adjustments was 35% for all periods presented.

## Net interest margin in 2015 vs. 2014

The net interest margin was 3.22% and 3.31% for the first quarters of 2015 and 2014, respectively, and 3.25% for the fourth quarter of 2014. The decreased net interest margin for the first quarter of 2015 compared to the same prior year period resulted primarily from lower yields on loans held for investment. Interest on AFS securities remained

relatively flat although yields on AFS securities were down by 42 bps. This was because the Company's average AFS securities balance increased by \$609 million in the first quarter of 2015 compared to the same prior year period. The impact of these items was partially offset by a decreased average balance for long-term debt.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

Even though the Company's average loan portfolio was \$1.1 billion higher during the first quarter of 2015, compared to the first quarter of 2014, the average interest rate earned on those assets was 4.21%, which is 30 bps lower than the comparable prior year period. This decline in interest income was primarily caused by (1) reduced interest income on loans acquired with FDIC assistance in 2009, as those acquired portfolios were successfully managed down, (2) 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, (3) loans originated at lower rates than the weighted average rate of the existing portfolio, and (4) the narrowing of credit and interest rate spreads. The primary reasons for the narrowing of credit and interest rate spreads are a combination of competitive pricing pressures and improved customer credit, 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 stronger earnings and improved leverage ratios.

The average HTM securities portfolio was \$633 million during the first quarter of 2015, compared to \$587 million during the same prior year period. This is because during all of 2014 the amount of HTM purchases was higher than the amount of maturities and paydowns. Also, during the first quarter of 2015, the Company reclassified all of its remaining HTM CDO securities, or approximately \$79 million at amortized cost, to AFS securities. However, this reclassification occurred towards the end of the first quarter of 2015, and therefore did not have a significant impact on the weighted average HTM securities balance. The average interest rate earned on HTM municipal securities for the first quarter of 2015 was 5.12%, or 53 bps lower than the same prior year period, due to lower rates for new HTM securities versus those that paid down or matured.

The average balance of AFS securities for the first quarter of 2015 increased by \$609 million, or 17.5%, while the average yield was 42 bps lower compared to the same prior year period. The decline in the average yield and the changes in the average balance are a result of changes in the composition of the AFS portfolio and the yields of the securities sold and purchased. During the first quarter of 2014, the Company sold \$581 million amortized cost of the Company's CDO securities. This was followed by additional sales of \$332 million amortized cost in subsequent quarters. In the first quarter of 2015, to improve yields and increase holdings of high quality liquid assets ("HQLA") securities, the Company continued its purchases of agency pass-through securities, as subsequently discussed, by purchasing \$666 million amortized cost of these securities which have lower yields than the CDO securities that the Company sold.

Average noninterest-bearing demand deposits provided the Company with low cost funding and comprised 43.3% of average total deposits for the first quarter of 2015, compared to 40.5% for first quarter of 2014. Average interest-bearing deposit balances were down 1.0% in the first quarter of 2015 compared to the same prior year period, and the rate paid declined by 1 bps to 18 bps.

The average balance of long-term debt was \$1.1 billion lower for the first quarter of 2015 compared to the same prior year period. The reduced balance was a result of tender offers, early calls, and redemptions at maturity, including \$835 million during the third quarter of 2014. The average interest rate paid on long-term debt for the first quarter of 2015 increased by 10 bps compared to the same prior year period. Refer to the "Liquidity Risk Management" section beginning on page 80 for more information.

During the first quarter of 2015, 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 15.1% of total interest-earning assets, compared to 15.8% in the same prior year period. The reduction is the result of the Company continuing to incrementally deploy its excess cash into higher yielding, short-to-medium duration securities that qualify as HQLA under new LCR and liquidity stress testing regulations.

See “Interest Rate and Market Risk Management” on page 76 for further discussion of how we manage the portfolios of interest-earning assets, interest-bearing liabilities, and the associated risk.

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ZIONS BANCORPORATION AND SUBSIDIARIES

The spread on average interest-bearing funds was 3.01% for both the first quarters of 2015 and 2014. The rate on interest-earning assets in the first quarter of 2015 was 25 bps lower than that in the same prior year period, but the cost on interest-bearing liabilities also declined by 25 bps during the same comparable periods.

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 portfolios, accompanied by somewhat less growth in commercial real estate loans. In addition, as discussed below, we are incrementally investing in short-to-medium duration agency pass-through securities that qualify as HQLA; over time we expect these investments to reduce the proportion of earning assets in cash and money market investments, and increase the proportion of AFS securities. Average yields on the loan portfolio are likely to continue to experience modest downward pressure due to competitive pricing, lower benchmark indices (such as LIBOR), and growth in lower-yielding residential mortgages; however, we expect this pressure to be somewhat less than in the prior two years. We believe that some of the downward pressure on the net interest margin will be mitigated by lower interest expense on reduced levels of long-term debt due to maturities that will occur in the third and fourth quarters of 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” (which refers to net interest income increasing as a result of a rising interest rate environment) with regard to interest rate risk. In response to new liquidity and liquidity stress-testing regulations, which elevate, relative to historic levels, the proportion of HQLA that the Company will be required to hold on its balance sheet, the Company decided in the second half of 2014 to begin deploying cash into short-to-medium duration agency pass-through securities. In the first quarter of 2015, to improve yields on interest-bearing assets, the Company purchased HQLA securities of \$666 million at amortized cost and is continuing these purchases. Over time these purchases are expected to somewhat reduce our asset sensitivity compared to previous periods. Our estimates of the Company’s actual interest rate risk position are highly dependent upon a number of assumptions regarding the repricing behavior of various deposit and loan types in response to changes in both short-term and long-term interest rates, balance sheet composition, and other modeling assumptions, as well as the actions of competitors and customers in response to those changes. 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 due to the prolonged period of very low interest rates. Further detail on interest rate risk is discussed in “Interest Rate Risk” on page 76.

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.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Unaudited)

| (In thousands)  | Three Months Ended<br>March 31, 2015 |                                    |                 | Three Months Ended<br>March 31, 2014 |                                    |                 |
|---|--------------------------------------|------------------------------------|-----------------|--------------------------------------|------------------------------------|-----------------|
|   | Average<br>balance                   | Amount of<br>interest <sup>1</sup> | Average<br>rate | Average<br>balance                   | Amount of<br>interest <sup>1</sup> | Average<br>rate |
| <b>ASSETS</b>   |                                      |                                    |                 |                                      |                                    |                 |
| Money market investments  | \$8,013,355                          | \$5,218                            | 0.26 %          | \$8,139,812                          | \$5,130                            | 0.26 %          |
| Securities:   |                                      |                                    |                 |                                      |                                    |                 |
| Held-to-maturity  | 632,927                              | 7,995                              | 5.12 %          | 587,473                              | 8,191                              | 5.65 %          |
| Available-for-sale  | 4,080,004                            | 20,773                             | 2.06 %          | 3,470,983                            | 21,230                             | 2.48 %          |
| Trading account   | 69,910                               | 598                                | 3.47 %          | 58,543                               | 482                                | 3.34 %          |
| Total securities  | 4,782,841                            | 29,366                             | 2.49 %          | 4,116,999                            | 29,903                             | 2.95 %          |
| Loans held for sale   | 105,279                              | 914                                | 3.52 %          | 157,170                              | 1,400                              | 3.61 %          |
| Loans and leases <sup>2</sup>   | 40,179,007                           | 417,183                            | 4.21 %          | 39,124,550                           | 434,975                            | 4.51 %          |
| Total interest-earning assets   | 53,080,482                           | 452,681                            | 3.46 %          | 51,538,531                           | 471,408                            | 3.71 %          |
| Cash and due from banks   | 743,618                              |                                    |                 | 1,038,217                            |                                    |                 |
| Allowance for loan losses   | (609,233 )                           |                                    |                 | (745,671 )                           |                                    |                 |
| Goodwill  | 1,014,129                            |                                    |                 | 1,014,129                            |                                    |                 |
| Core deposit and other intangibles  | 24,355                               |                                    |                 | 35,072                               |                                    |                 |
| Other assets  | 2,564,199                            |                                    |                 | 2,553,302                            |                                    |                 |
| Total assets  | \$56,817,550                         |                                    |                 | \$55,433,580                         |                                    |                 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                     |                                      |                                    |                 |                                      |                                    |                 |
| Interest-bearing deposits:  |                                      |                                    |                 |                                      |                                    |                 |
| Savings and money market  | \$24,214,265                         | 9,445                              | 0.16 %          | \$22,908,201                         | 8,852                              | 0.16 %          |
| Time  | 2,372,492                            | 2,538                              | 0.43 %          | 2,560,283                            | 3,083                              | 0.49 %          |
| Foreign   | 351,873                              | 121                                | 0.14 %          | 1,751,910                            | 844                                | 0.20 %          |
| Total interest-bearing deposits   | 26,938,630                           | 12,104                             | 0.18 %          | 27,220,394                           | 12,779                             | 0.19 %          |
| Borrowed funds:   |                                      |                                    |                 |                                      |                                    |                 |
| Federal funds and other short-term borrowings                                   | 219,747                              | 78                                 | 0.14 %          | 249,043                              | 67                                 | 0.11 %          |
| Long-term debt  | 1,091,706                            | 18,918                             | 7.03 %          | 2,237,457                            | 38,257                             | 6.93 %          |
| Total borrowed funds  | 1,311,453                            | 18,996                             | 5.87 %          | 2,486,500                            | 38,324                             | 6.25 %          |
| Total interest-bearing liabilities  | 28,250,083                           | 31,100                             | 0.45 %          | 29,706,894                           | 51,103                             | 0.70 %          |
| Noninterest-bearing deposits  | 20,545,395                           |                                    |                 | 18,559,675                           |                                    |                 |
| Other liabilities   | 612,752                              |                                    |                 | 567,678                              |                                    |                 |
| Total liabilities   | 49,408,230                           |                                    |                 | 48,834,247                           |                                    |                 |
| Shareholders' equity:   |                                      |                                    |                 |                                      |                                    |                 |
| Preferred equity  | 1,004,015                            |                                    |                 | 1,003,970                            |                                    |                 |
| Common equity   | 6,405,305                            |                                    |                 | 5,595,363                            |                                    |                 |
| Total shareholders' equity  | 7,409,320                            |                                    |                 | 6,599,333                            |                                    |                 |
| Total liabilities and shareholders' equity                                      | \$56,817,550                         |                                    |                 | \$55,433,580                         |                                    |                 |
| Spread on average interest-bearing funds  |                                      |                                    | 3.01 %          |                                      |                                    | 3.01 %          |
| Taxable-equivalent net interest income and net yield on interest-earning assets |                                      | \$421,581                          | 3.22 %          |                                      | \$420,305                          | 3.31 %          |



<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.

#### 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

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ZIONS BANCORPORATION AND SUBSIDIARIES

Management” on page 65 for more information on how we determine the appropriate level for the ALLL and the RULC.

During the past few years, the Company has experienced a significant improvement in credit quality metrics; however, recently the Company has experienced deterioration in various credit quality metrics primarily related to energy-related loans at Amegy Bank. Overall credit quality metrics for the first quarter of 2015 compared to the same prior year period remained relatively stable. Gross loan and lease charge-offs were relatively unchanged at \$20 million in the first quarter of 2015, compared to \$21 million in the same prior year period. However, the Company had gross recoveries of \$37 million in the first quarter of 2015, compared to \$13 million in the same prior year period. The majority of the gross recoveries were at Amegy Bank in their non-energy-related loan portfolio.

Nonperforming lending-related assets increased to \$399 million at March 31, 2015 from \$326 million at December 31, 2014. The ratio of nonperforming lending-related assets to loans and leases and other real estate owned increased to 0.99% at March 31, 2015 from 0.81% at December 31, 2014. Classified loans increased to \$1.3 billion at March 31, 2015 from \$1.1 billion at December 31, 2014. Approximately 83% of classified loans at March 31, 2015 and December 31, 2014 were current as to principal and interest payments. Classified loans are loans with well-defined credit weaknesses that are risk graded Substandard or Doubtful.

The deterioration of the credit quality metrics in the energy portfolio caused the Company’s total allowance for loan losses to increase in the first quarter of 2015. However, due to the net recovery of \$17 million, the provision for loan losses for the first quarter of 2015 was \$(1.5) million compared to \$(0.6) million for the same prior year period. The recent deterioration in credit quality metrics in the energy portfolio has been generally offset by improvements in credit quality in the remainder of the loan and lease portfolio. The Company continues to exercise caution with regard to the appropriate level of the allowance for loan losses, given the state of the economy and the sensitivity of its energy loan portfolio to oil and gas prices. We currently expect modestly positive provisions for the year.

During the first quarter of 2015, the Company recorded a \$1.2 million provision for unfunded lending commitments compared to \$(1.0) million in the first quarter of 2014. The provision in the first quarter of 2015 was primarily driven by downgrades in the Company’s energy portfolio. From quarter to quarter, 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, funding, and changes in credit quality.

A significant contributor to net earnings in 2014 was the negative provision for loan and lease losses. This is primarily attributable to continued reduction in both the quantity of problem loans and the loss severity of such problem loans. We currently expect the Company’s credit quality metrics to continue to deteriorate if oil prices remain at the lower end of the recent trading range, causing additional stress to credit quality and resulting in net additions to the allowance. This could result in a significant change in profitability.

#### Noninterest Income

Noninterest income represents revenues the Company earns for products and services that have no associated interest rate or yield. For the first quarter of 2015, noninterest income was \$121.8 million compared to \$138.3 million for the same prior year period. The \$16.5 million decrease was primarily attributable to a decrease in fixed income securities gains, partially offset by an increase in other service charges, commissions and fees and fair value and nonhedge derivative income (loss). The following are major components of noninterest income line items impacting the first 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 \$3.2 million in the first quarter of 2015 compared to the same prior year period. The increase was primarily due to increased interchange fees from commercial credit cards.

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Fair value and nonhedge derivative income (loss) represents the fair value gains and losses from nonhedge credit derivatives as well as the fees on a total return swap. Fair value and nonhedge derivative income (loss) improved by \$7.5 million from a loss of \$8.5 million in the first quarter of 2014 to a loss of \$1.1 million in the first quarter of 2015. The improvement was primarily due to fees paid on the total return swap in the first quarter of 2014. The total return swap was terminated in the second quarter of 2014 and therefore, there were no fees in the first quarter of 2015. Fixed income securities gains were a net loss of \$0.2 million in the first quarter of 2015, compared to gains of \$30.9 million in the first quarter of 2014. The net gain recorded in the first quarter of 2014 was primarily due to sales of CDOs whose amortized cost was written down to fair value at December 31, 2013. The CDOs sold in the first quarter of 2014 had a carrying value of \$577 million and were sold for \$607 million. The Company had a small amount of CDO sales, \$3.3 million, in the first quarter of 2015.

Noninterest Expense

Noninterest expense remained relatively flat and decreased by \$0.6 million, or 0.2%, to \$397.5 million in the first quarter of 2015, compared to the same prior year period. The decline in noninterest expense was primarily caused by a decline in other noninterest expense. The decline was partially offset by increases in salaries and employee benefits and the provision for unfunded lending commitments. The following are major components of noninterest expense line items impacting the first quarter change.

Salaries and employee benefits increased by \$10.1 million, or 4.3%, during the first quarter of 2015, compared to the same prior year period. Most of the increase in salaries and employee benefits can be attributed to higher base salaries even though the number of full-time equivalent employees declined by 127 in the first quarter of 2015 compared to the first quarter of 2014. The overall headcount of the Company was 10,355 full-time equivalent employees as of March 31, 2015, compared to 10,482 at March 31, 2014. Staff reductions, primarily at several affiliate banks, were partially offset by increased headcount in specific areas, including the Company's major systems projects, compliance and build-out of its enterprise risk management and stress testing functions.

Other noninterest expense for the first quarter of 2015 was \$58.4 million, compared to \$72.7 million for the same prior year period. 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 first quarter of 2014, primarily due to paydowns and payoffs. The Company does not expect significant write-downs of the FDIC indemnification asset in 2015.

Income Taxes

The Company's income tax expense for the first quarter of 2015 was \$51.2 million compared to \$56.1 million for the same period in 2014. The effective income tax rates, including the effects of noncontrolling interests, for both the first three months of 2015 and 2014 were 35.7%. The tax expense rates for both the first quarter of 2015 and 2014 benefited primarily from the nontaxability of certain income items.

The Company had a net deferred tax asset ("DTA") balance of \$213 million at March 31, 2015, compared to \$224 million at December 31, 2014. The decrease in the DTA resulted primarily from the payout of accrued compensation and the reduction of unrealized losses in OCI related to the reclassification of CDO securities from HTM to AFS in the first quarter of 2015. Decreases in deferred tax liabilities related to premises and equipment and the deferred gain on the Company's 2009 debt exchange partially offset some of the overall decrease in DTA.

Dividends on Preferred Stock

The Company's dividends on preferred stock decreased in the first quarter of 2015 by \$8.3 million from the same prior year period. The first quarter of 2014 included an \$8.3 million dividend accrual due to the phase-in of semiannual dividends on a newly issued series of preferred stock.



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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.

The schedule referred to in our discussion of net interest income includes the average balances of the Company's interest earning assets, the amount of revenue generated by them, and their respective yields. Another goal is to maintain a higher-yielding mix of interest-earning assets, such as loans, relative to lower-yielding assets, such as money market investments 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. In 2014, the Company began to incrementally deploy some of its excess cash into short-to-medium duration pass-through agency securities that qualify as HQLA under new LCR and liquidity stress testing regulations. As a result of this and to improve yields, in the first quarter of 2015, the Company purchased \$666 million at amortized cost of HQLA securities and is continuing these purchases because these securities currently have a higher yield than money market investments.

Average interest-earning assets were \$53.1 billion for the first quarter of 2015, compared to \$51.5 billion for the first quarter of 2014. Average interest-earning assets as a percentage of total average assets for the first three months of 2015 was 93.4%, compared to 93.0% in the corresponding prior year period.

Average loans and leases, were \$40.2 billion and \$39.1 billion for the first quarters of 2015 and 2014, respectively. Average loans and leases as a percentage of total average assets for the first three months of 2015 was 70.7% compared to 70.6% in the corresponding prior year period.

Average money market investments, consisting of interest-bearing deposits, federal funds sold, and security resell agreements, decreased by 1.6% to \$8.0 billion for the first quarter of 2015, compared to \$8.1 billion for the first quarter of 2014. Average securities increased by 16.2% since the first quarter of 2014. Average total deposits increased by 3.7% that resulted primarily from an increase in noninterest-bearing deposits and savings and money market deposits, while average loans and leases increased by 2.7% for the first quarter of 2015 compared to that of 2014. The increase in securities growth was due to an increase in the purchase of agency pass-through securities in efforts to deploy cash incrementally into HQLA securities and reduce the asset sensitivity of the Company. Loan growth increased slightly in the first quarter of 2015 as a result of increases in the commercial and industrial and CRE portfolios. However, due to the Company's concentration limits, growth for the CRE portfolio was constrained. Additionally, loan growth was muted due to recent events in the energy sector that include paydowns resulting from refinancing that were driven in part by stronger capital markets activities within the energy sector, i.e., issuance of additional public and private equity debt.

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. Refer to the "Liquidity Risk Management" section on page 80 for additional information on management of liquidity and funding and compliance with Basel III and LCR requirements. The following schedule presents a profile of the Company's investment securities portfolio. The amortized cost amounts represent the Company's original cost of the investments, adjusted for related accumulated amortization or accretion of any yield adjustments, and for impairment losses, including credit-related impairment. The estimated fair value measurement levels and methodology are discussed in Note 10 of the Notes to Consolidated Financial Statements.



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## INVESTMENT SECURITIES PORTFOLIO

| (In millions)  | March 31, 2015 |                |                      | December 31, 2014 |                |                      |
|--|----------------|----------------|----------------------|-------------------|----------------|----------------------|
|  | Amortized cost | Carrying value | Estimated fair value | Amortized cost    | Carrying value | Estimated fair value |
| Held-to-maturity                                     |                |                |                      |                   |                |                      |
| Municipal securities                                 | \$591          | \$591          | \$602                | \$608             | \$608          | \$620                |
| Asset-backed securities:                             |                |                |                      |                   |                |                      |
| Trust preferred securities – banks and insurance     | —              | —              | —                    | 79                | 39             | 57                   |
|  | 591            | 591            | 602                  | 687               | 647            | 677                  |
| Available-for-sale                                   |                |                |                      |                   |                |                      |
| U.S. Government agencies and corporations:           |                |                |                      |                   |                |                      |
| Agency securities                                    | 632            | 626            | 626                  | 607               | 601            | 601                  |
| Agency guaranteed mortgage-backed securities         | 1,418          | 1,434          | 1,434                | 935               | 945            | 945                  |
| Small Business Administration loan-backed securities | 1,588          | 1,596          | 1,596                | 1,544             | 1,552          | 1,552                |
| Municipal securities                                 | 175            | 176            | 176                  | 189               | 189            | 189                  |
| Asset-backed securities:                             |                |                |                      |                   |                |                      |
| Trust preferred securities – banks and insurance     | 612            | 461            | 461                  | 538               | 415            | 415                  |
| Other  | 5              | 5              | 5                    | 6                 | 6              | 6                    |
|  | 4,430          | 4,298          | 4,298                | 3,819             | 3,708          | 3,708                |
| Mutual funds and other                               | 153            | 153            | 153                  | 137               | 136            | 136                  |
|  | 4,583          | 4,451          | 4,451                | 3,956             | 3,844          | 3,844                |
| Total  | \$5,174        | \$5,042        | \$5,053              | \$4,643           | \$4,491        | \$4,521              |

The amortized cost of investment securities at March 31, 2015 increased by 11.4% from the balances at December 31, 2014, primarily due to an increase in the purchases of short-to-medium duration agency pass-through securities that were generally funded through reduction of interest-bearing deposits. There were additional increases in other agency securities, Small Business Administration loan-backed securities, and mutual funds and other, offset by a slight decline in amortized cost of the CDO and municipal securities.

During the first quarter of 2015, we reclassified all of the remaining HTM CDO securities, or approximately \$79 million at amortized cost, to AFS securities. We took this action as a result of the most recent Dodd-Frank Act stress test results and the treatment of the CDO securities under the new Basel III capital and risk weighting rules that became effective January 1, 2015. The reclassification provided the Company with greater flexibility in the management of these securities. Current accounting guidance allows for the reclassification of HTM to AFS securities, without calling into question the entity's intent to hold other debt securities to maturity, when there has been a significant increase in the risk weights of debt securities used for regulatory risk-based capital purposes. No gain or loss was recognized in the statement of income at the time of reclassification.

As of March 31, 2015, 2.8% of the \$4.5 billion fair value of the AFS securities portfolio was valued at Level 1, 87.2% was valued at Level 2, and 10.0% was valued at Level 3 under the GAAP fair value accounting hierarchy. At December 31, 2014, 2.7% of the \$3.8 billion fair value of AFS securities portfolio was valued at Level 1, 86.8% was valued at Level 2, and 10.5% 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 \$595 million at March 31, 2015 and the fair value of these securities was \$446 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 March 31, 2015 were \$149 million. As of March 31, 2015, we believe we would receive, if

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held to their 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.

Applicable accounting guidance precludes the use of “blockage factors” or liquidity adjustments due to the quantity of securities held by the Company in the determination of estimated fair value. All of the Company’s CDO securities are valued under Level 3. 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 is highly dependent upon then-current market conditions. The market for such securities, which showed substantial improvement during 2014 and has remained stable in 2015, remains difficult to predict. The Company may execute additional CDO sales in future quarters which may result in net losses. Please refer to Notes 5 and 10 of the Notes to Consolidated Financial Statements for more information.

The remaining CDO portfolio is primarily comprised of original AAA rated securities. All securities are current with regard to interest payments. Approximately one-third of the portfolio, by amortized cost, is the most senior class of debt of the CDO and hence is entitled to and is receiving principal paydowns. The Company has not identified any credit impairment on the remaining CDO securities since the quarter ending March 31, 2013. The Company continues to observe ratings upgrades and attributes the ratings upgrades by one or more NRSROs during 2014 and continuing into 2015 to improvements in over-collateralization ratios and deleveraging combined with certain less severe rating agency assumptions and methodologies.

**CDO Bank Collateral Deferral Experience**

The Company’s loss and recovery experience on defaults as of March 31, 2015 (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 2014 resulted in the Company reducing its exposure to some unresolved deferring banks. At March 31, 2015, the Company had exposure to 34 deferring issuers of which 23 were in their initial five-year deferral period. 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; 166 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 re-defer. Such re-deferral has occurred in 11 of the 34 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.

**CDO Internal Model Assumption Changes in 2015**

The Company had no assumption changes for the first quarter of 2015. The Company reduced discount rates and prepayment assumptions on CDO securities during 2014. Neither assumption change was material to either fair value estimates or credit impairment considerations during 2014. The Company incorporates modeling assumptions and trade information into the process used to estimate fair value. Trade information for both 2014 and the first quarter of 2015 included sales of CDO securities by the Company and by third parties.

During the first quarter of 2015, the market level discount rates applicable to bank CDOs rose slightly and fair values declined very slightly. During 2014, the market level discount rates applicable to bank CDOs declined substantially and fair values rose.

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

We review investments in debt securities each quarter for the presence of OTTI. The identification of OTTI occurs when the valuation of securities under an internal income-based cash flow model or a third party valuation service

produces a loss-adjusted expected cash flow. The amount of the credit component of OTTI is calculated by

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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 March 31, 2015, for each AFS security whose fair value was below amortized cost, we have not determined an intent to sell the security, and that it was not more likely than not we would be required to sell the security before recovery of its amortized cost basis. For each HTM security whose fair value was below amortized cost, we have determined that it was not more likely than not we would be required to sell the security before maturity.

During the first quarter of 2015, 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.

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

## MUNICIPALITIES

| (In millions)                                | March 31,<br>2015 | December 31,<br>2014 |
|--|-------------------|----------------------|
| Loans and leases                             | \$555             | \$521                |
| Held-to-maturity – municipal securities      | 591               | 608                  |
| Available-for-sale – municipal securities    | 176               | 189                  |
| Available-for-sale – auction rate securities | 5                 | 5                    |
| Trading account – municipal securities       | 55                | 53                   |
| Unfunded lending commitments                 | 62                | 58                   |
| Total direct exposure to municipalities      | \$1,444           | \$1,434              |

At March 31, 2015, \$1.0 million of loans to one municipality were on nonaccrual. A significant amount of the municipal loan and lease portfolio is secured by real estate and equipment, and approximately 90% 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. As of March 31, 2015, the AFS municipal securities were issued by issuers with investment-grade ratings from one or more major credit rating agencies and were rated investment-grade as of March 31, 2015. The Company also underwrites municipal bonds and sells most of them to third party investors.

## Foreign Exposure and Operations

The Company has de minimis credit exposure to foreign sovereign risks and does not believe its total foreign credit exposure is material. The Company does not have significant foreign exposure for its derivative counterparties. Foreign loans to non-sovereign entities consist primarily of commercial and industrial loans and totaled \$161 million at March 31, 2015 and \$144 million at December 31, 2014.

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The Company's foreign operations are comprised of Amegy operating a branch in Grand Cayman, Grand Cayman Islands, B.W.I. In April 2014, Zions Bank closed its branch in the Grand Cayman Islands. Amegy's foreign branch only accepts deposits from qualified domestic customers. While deposits in this branch are not subject to FRB reserve requirements, there are no federal or state income tax benefits to the Company or any customers as a result of these operations. Foreign deposits were \$383 million at March 31, 2015 and \$328 million at December 31, 2014.

## Loan Portfolio

For the first quarters of 2015 and 2014, average loans and leases accounted for 70.7% and 70.6%, respectively, of total average assets. As displayed in the following schedule, commercial and industrial loans were the largest category and constituted 33.0% of the Company's loan portfolio at March 31, 2015. Construction and land development loans were 5.1% at March 31, 2015 and 5.0% at December 31, 2014.

## LOAN PORTFOLIO

| (Amounts in millions)                       | March 31, 2015 |                  | December 31, 2014 |                  |   |
|---|----------------|------------------|-------------------|------------------|---|
|   | Amount         | % of total loans | Amount            | % of total loans |   |
| Commercial:                                 |                |                  |                   |                  |   |
| Commercial and industrial                   | \$13,264       | 33.0             | % \$13,163        | 32.9             | % |
| Leasing                                     | 407            | 1.0              | 409               | 1.0              |   |
| Owner occupied                              | 7,310          | 18.2             | 7,351             | 18.3             |   |
| Municipal                                   | 555            | 1.4              | 521               | 1.3              |   |
| Total commercial                            | 21,536         | 53.6             | 21,444            | 53.5             |   |
| Commercial real estate:                     |                |                  |                   |                  |   |
| Construction and land development           | 2,045          | 5.1              | 1,986             | 5.0              |   |
| Term  | 8,088          | 20.1             | 8,127             | 20.3             |   |
| Total commercial real estate                | 10,133         | 25.2             | 10,113            | 25.3             |   |
| Consumer:                                   |                |                  |                   |                  |   |
| Home equity credit line                     | 2,315          | 5.8              | 2,321             | 5.8              |   |
| 1-4 family residential                      | 5,213          | 13.0             | 5,201             | 13.0             |   |
| Construction and other consumer real estate | 373            | 0.9              | 371               | 0.9              |   |
| Bankcard and other revolving plans          | 407            | 1.0              | 401               | 1.0              |   |
| Other                                       | 203            | 0.5              | 213               | 0.5              |   |
| Total consumer                              | 8,511          | 21.2             | 8,507             | 21.2             |   |
| Total net loans                             | \$40,180       | 100.0            | % \$40,064        | 100.0            | % |

As of March 31, 2015, loans and leases were \$40.2 billion, reflecting a 0.3% increase from December 31, 2014. The increase is primarily attributable to new loan originations, as well as a decrease in paydowns and charge-offs of existing loans.

Most of the loan portfolio growth during the first three months of 2015 occurred in commercial and industrial, commercial construction and land development, municipal, and 1-4 family residential loans. The impact of these increases was partially offset by declines in commercial owner occupied, and commercial real estate term loans. The loan portfolio increased primarily at Amegy, NBAZ, and Vectra, while balances declined at NSB and Zions Bank. Commercial owner occupied loans declined due to the runoff and attrition of the National Real Estate portfolio at Zions Bank, which is expected to continue in 2015. The National Real Estate business is a wholesale business that depends upon loan referrals from other community banking institutions. Due to generally soft loan demand nationally, many community banking institutions are retaining, rather than selling, their loan production.

We expect overall loan and lease growth to increase at a moderate pace in 2015. We also expect to continue to limit construction and land development loan commitment growth for the foreseeable future as part of management's actions to improve the risk profile of the Company's loans and to reduce portfolio concentration risk.

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Since 2009, CB&T and NSB have had loss sharing agreements with the FDIC that provided indemnification for credit losses of acquired loans and foreclosed assets up to specified thresholds. The last of the agreements for commercial loans, which comprised the major portion of the acquired portfolio, expired as of September 30, 2014. The agreements for 1-4 family residential loans will expire in 2019. In previous periods, the FDIC-supported loan balances were presented separately in schedules within MD&A and in other disclosures, and included PCI loans, as discussed in Note 6 of the Notes to Consolidated Financial Statements. Due to declining balances, for all years presented herein, the FDIC-supported/PCI loans have been reclassified to their respective loan segments and classes.

## Other Noninterest-Bearing Investments

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

## OTHER NONINTEREST-BEARING INVESTMENTS

| (In millions)                | March 31,<br>2015 | December 31,<br>2014 |
|------------------------------|-------------------|----------------------|
| Bank-owned life insurance    | \$479             | \$476                |
| Federal Home Loan Bank stock | 103               | 104                  |
| Federal Reserve stock        | 121               | 121                  |
| Farmer Mac stock             | 26                | 26                   |
| SBIC investments             | 95                | 86                   |
| Non-SBIC investment funds    | 37                | 44                   |
| Others                       | 9                 | 9                    |
|                              | \$870             | \$866                |

## Premises and Equipment

Premises and equipment increased \$15 million, or 1.8%, during the first three months of 2015 due to capitalized costs associated with development of 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 quarter of 2015 increased by 3.7%, compared to the first quarter of 2014, with average interest-bearing deposits decreasing by 1.0% and average noninterest-bearing deposits increasing by 10.7%. The increase in noninterest-bearing deposits was largely driven by increased deposits from retail and business customers. The average interest rate paid for interest-bearing deposits was 1 bp lower during the first quarter of 2015 compared to the first quarter of 2014.

Core deposits at March 31, 2015, which exclude time deposits larger than \$100,000 and brokered deposits, increased by 1%, or \$306 million, from December 31, 2014. The increase was mainly due to an increase in noninterest-bearing demand deposits, and a slight increase in foreign deposits, offset by a decrease in interest-bearing domestic savings, money market, and time deposits.

Demand and savings and money market deposits remained relatively unchanged at 94.3% of total deposits both at March 31, 2015 and December 31, 2014.

During the first quarter and throughout 2014, 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 March 31, 2015 and December



31, 2014, total deposits included \$118 million and \$108 million, respectively, of brokered deposits.  
See “Liquidity Risk Management” on page 80 for additional information on funding and borrowed funds.

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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. The Board of Directors has appointed a Risk Oversight Committee ("ROC") that consists of appointed Board members who oversee the Company's risk management processes. Management applies 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 separate the lending function from the credit administration function, which strengthens 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 at the local affiliate bank level. 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. Reports thereon are submitted to management and to the ROC. New, expanded, or modified products and services, as well as new lines of business, are approved by the corporate New Product Review Committee.

Both the credit policy and the credit examination functions are managed centrally. Each 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. Generally, the Company is well diversified in its loan portfolio; however, due to the nature of the Company's geographical footprint, there are certain significant concentrations primarily in CRE and energy-related lending. 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 energy-related lending. All of these limits are continually monitored and revised as necessary. During 2014, the Company determined to further reduce construction and land development loan commitments. This was done largely as a result of the modeled losses by the Company and management's beliefs about the likely severity of losses modeled by the Federal Reserve in its 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 three months of 2015. Nonperforming lending-related assets at March 31, 2015 increased by 22.7% and decreased by 9.4% from December 31, 2014, and March 31, 2014, respectively. Gross charge-offs for the first quarter of 2015 declined to \$20.2 million from \$35.5 million in the fourth quarter of 2014. Net charge-offs decreased to \$(16.9) million from \$17.2 million for

the same periods.

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## 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 Deposit Insurance Corporation, Federal Housing Authority, Veterans' Administration, Export-Import Bank of the U.S., and the U.S. Department of Agriculture. As of March 31, 2015, the guaranteed portion of these loans was approximately \$420 million. Most of these loans were guaranteed by the Small Business Administration.

The following schedule presents the composition of government agency guaranteed loans.

## GOVERNMENT GUARANTEES

| (Amounts in millions)  | March 31,<br>2015 | Percent<br>guaranteed |   | December 31,<br>2014 | Percent<br>guaranteed |   |
|------------------------|-------------------|-----------------------|---|----------------------|-----------------------|---|
| Commercial             | \$515             | 76                    | % | \$539                | 76                    | % |
| Commercial real estate | 17                | 77                    |   | 19                   | 77                    |   |
| Consumer               | 17                | 87                    |   | 17                   | 86                    |   |
| Total loans            | \$549             | 76                    |   | \$575                | 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)                           | March 31, 2015 |         |   | December 31, 2014 |         |   |
|---|----------------|---------|---|-------------------|---------|---|
|   | Amount         | Percent |   | Amount            | Percent |   |
| Real estate, rental and leasing                 | \$2,359        | 11.0    | % | \$2,418           | 11.4    | % |
| Manufacturing                                   | 2,359          | 11.0    |   | 2,305             | 10.7    |   |
| Mining, quarrying and oil and gas extraction    | 2,265          | 10.5    |   | 2,277             | 10.6    |   |
| Retail trade                                    | 1,942          | 9.0     |   | 1,924             | 9.0     |   |
| Wholesale trade                                 | 1,735          | 8.0     |   | 1,638             | 7.6     |   |
| Transportation and warehousing                  | 1,329          | 6.2     |   | 1,294             | 6.0     |   |
| Healthcare and social assistance                | 1,325          | 6.2     |   | 1,347             | 6.3     |   |
| Finance and insurance                           | 1,165          | 5.4     |   | 1,168             | 5.5     |   |
| Construction                                    | 1,036          | 4.8     |   | 1,027             | 4.8     |   |
| Accommodation and food services                 | 964            | 4.5     |   | 911               | 4.2     |   |
| Professional, scientific and technical services | 898            | 4.2     |   | 884               | 4.1     |   |
| Other <sup>1</sup>                              | 4,159          | 19.2    |   | 4,251             | 19.8    |   |
| Total   | \$21,536       | 100.0   | % | \$21,444          | 100.0   | % |

<sup>1</sup> No other industry group exceeds 4%.

## Energy-Related Exposure

Various industries represented in the previous schedule, including mining, quarrying and oil and gas extraction; manufacturing; and transportation and warehousing; contain certain loans categorized by the Company as energy-related. At March 31, 2015, the Company had approximately \$5.8 billion of total energy-related credit exposure and \$3.2 billion of primarily oil and gas energy-related loan balances. The distribution of energy-related loans by customer market segment is shown in the following schedule.



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ENERGY-RELATED EXPOSURE <sup>1</sup>

| (Amounts in millions)                        | March 31, 2015 | December 31, 2014 |
|--|----------------|-------------------|
| Loans and leases                             |                |                   |
| Oil and gas-related                          | \$3,157        | \$3,073           |
| Alternative energy                           | 232            | 225               |
| Total loans and leases                       | 3,389          | 3,298             |
| Unfunded lending commitments                 | 2,451          | 2,731             |
| Total credit exposure                        | \$5,840        | \$6,029           |
| Private equity investments                   | \$20           | \$21              |
| Distribution of oil and gas-related balances |                |                   |
| Upstream – exploration and production        | 34             | 34                |
| Midstream – marketing and transportation     | 21             | 19                |
| Downstream – refining                        | 4              | 4                 |
| Other non-services                           | 2              | 2                 |
| Oilfield services                            | 30             | 31                |
| Energy service manufacturing                 | 9              | 10                |
| Total loans and leases                       | 100            | 100               |

Because many borrowers operate in multiple businesses, judgment has been applied in characterizing a borrower as energy-related, including a particular segment of energy-related activity, e.g., upstream or downstream. The December 31, 2014 numbers in the preceding schedule have been adjusted to remove certain credits which, upon review, were determined not to be energy-related.

The Company's overall balance of oil and gas-related loans increased 2.7% to \$3.2 billion. Exploration and production balances increased approximately 2.6%, while energy services loan balances declined approximately 3.9% from the prior quarter. Unfunded energy-related lending commitments declined by \$280 million, or 10% during the quarter; a majority of this reduction occurred in non-reserve-based commitments.

As of March 31, 2015, \$65 million, or 2.1%, of the \$3.2 billion outstanding oil and gas energy-related loan balances were nonaccruing, compared to \$17 million, or 0.5%, at December 31, 2014. Approximately 93% of the March 31, 2015 energy-related nonaccruing loans were current as to principal and interest payments. Classified energy-related credits increased to \$295 million at March 31, 2015 from \$134 million at December 31, 2014.

The Company's historical energy lending performance has been strong despite significant volatility in both oil and natural gas prices. Losses following the 2008-2009 period of oil and gas price declines and volatility were modest. Energy-related classified loans increased significantly during this last economic downturn, nonperforming loans increased much more modestly, and annual losses were relatively minor (approximately 1% in the peak year of 2010). The Company's cumulative energy-related net charge-offs over the last five years have been lower than the cumulative net loss rate of general commercial and industrial lending during that same time period.

## Upstream

Upstream exploration and production loans comprised approximately 34% of the Company's energy-related exposure as of March 31, 2015. Many upstream borrowers have relatively balanced production between oil and gas.

The Company uses disciplined underwriting practices to mitigate the risk associated with its upstream lending activities. Upstream loans are made to reserve-based borrowers where more than 90% of those loans are collateralized

by the value of the borrower's oil and gas reserves. The Company's oil and gas price deck, the pricing applied to a borrower's reserves for underwriting purposes, has generally been below the NYMEX strip, i.e., the average of the daily settlement prices of the next 12 months' futures contracts. Through the use of independent

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Company and third party engineers and conservative underwriting, the Company applies multiple discounts. These discounts often range from 10-40% of the value of the collateral in determining the borrowing base (commitment), and help protect credit quality against significant commodity price declines. Further, reserve-based commitments are subject to a borrowing base redetermination based on then-current energy prices, typically every six months. Generally, the Company has, at its option, the right to conduct additional redeterminations during the year. Borrowing bases for clients are usually set at 60-70% of available collateral after an adjustment for the discounts described above.

In the fourth quarter of 2014, we were quick to initiate the process of reviewing our energy-related loans and reaching out to all of our energy-related borrowers. As of March 31, 2015, we have completed the borrowing base redetermination of about one-fifth of our upstream portfolio. On a weighted average basis for this segment of the portfolio, the borrowing base declined by about 12%, although a few borrowers experienced an increase in the borrowing base, due to factors such as the development of additional reserves. As a result of our review, several credits were downgraded. We expect that as the borrowing base redetermination process is completed in the near future, we are likely to experience further downgrades.

Upstream borrowers generally do not draw the maximum available funding on their lines, which provides the borrower additional liquidity and flexibility. The line utilization rate for upstream borrowers was approximately 64% at March 31, 2015. This unused commitment gives us the ability in some cases to reduce the borrowing base commitment through the redetermination process without creating a borrowing base deficiency (where outstanding debt exceeds the new borrowing base). Nevertheless, our loan agreements generally require the borrowers to maintain a certain amount of equity. Therefore, if the loan to collateral value exceeds an acceptable limit, we work with the borrowers to reinstate an acceptable collateral-value threshold.

An additional metric that the Company considers in its underwriting is a borrower's oil and gas price hedging practices. A significant portion of the Company's reserve-based borrowers are hedged. Of the upstream borrower's risk-based estimated oil production projected in 2015, approximately 50% is hedged based on weighted average commitments and the latest data provided by the borrowers.

#### Midstream

Midstream marketing and transportation loans comprised approximately 21% of the Company's energy-related exposure as of March 31, 2015. Loans in this segment are made to companies that gather, transport, treat and blend oil and natural gas, or that provide services to similar companies. The assets owned by these borrowers, which make this activity possible, are field-level gathering systems (small diameter pipe), pipelines (medium/large diameter pipe), tanks, trucks, rail cars, various water-based vessels and natural gas treatment plants. Our midstream loans are secured by these assets, unless the borrower is rated investment-grade. A significant portion of our midstream borrowers' revenues are derived from fee-based contracts, giving them limited exposure to commodity price risk. Since lower oil and gas prices slow the drilling and development of new oil and natural gas, but do not normally result in significant numbers of producing wells being shut in, volumes of oil and gas flowing through midstream systems usually remain relatively stable throughout oil and natural gas price cycles. During the 2008-2009 period of oil and gas price volatility, classified loans in the midstream segment peaked at a lower level than the upstream and energy services segments.

#### Energy Services

Energy service loans, which include oilfield services and energy service manufacturing comprised approximately 39% of the Company's energy-related exposure as of March 31, 2015. Energy service loans include borrowers that have a concentration of revenues to the energy industry. However, many of these borrowers provide a broad range of



products and services to the energy industry, and are not subject to the same volatility as new drilling activities. Many of these borrowers are diversified geographically and service both oil and gas-related drilling and production.

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For energy service loans, underwriting criteria requires lower leverage to compensate for the cyclical nature of the industry. During the Company's underwriting process, we use sensitivity analysis to consider revenue and cash flow impacts resulting from oil and gas price cycles. Generally, we underwrite energy service loans to withstand a 20-50% decline in cash flows, with higher discounts for those borrowers subject to greater cyclicality.

**Risk Management of the Energy-Related Portfolio**

The Company applies concentration limits and disciplined underwriting to its entire energy-related portfolio in order to limit its risk exposure. Concentration limits on energy-related lending, coupled with adherence to the Company's underwriting standards, served to constrain loan growth during the past several quarters. As an indicator of the diversity of our energy-related portfolio's size, the average amount of our commitments is approximately \$8 million, with approximately 60% of the commitments less than \$30 million. The portfolio contains only senior loans – no junior or second lien positions; additionally, the Company cautiously approaches making first lien loans to borrowers that employ excessive leverage through the use of junior lien loans or unsecured layers of debt. More than 90% of the total energy-related portfolio is secured by reserves, equipment, real estate, and other collateral, or a combination of collateral types. Lending arrangements that are not secured are generally to investment-grade borrowers.

The Company participates as a lender in loans and commitments designated as Shared National Credits ("SNCs"), which are generally larger and more diversified borrowers that have better access to capital markets. SNCs are loans or loan commitments of at least \$20 million that are shared by three or more federally supervised institutions. The percentage of SNCs is approximately 80% in the upstream portfolio, 77% in the midstream portfolio, and 51% in the energy services portfolio. Our bankers have direct access and contact with the management of these SNC borrowers, and as such, are active participants. In many cases, the Company provides ancillary banking services to these borrowers, further evidencing this direct relationship.

As a secondary source of support, many of our energy-related borrowers have access to capital markets and private equity sources. Private sponsors tend to be large funds, often with assets under management of more than \$1 billion, managed by individuals with a great deal of energy expertise and experience and who have successfully managed energy investments through previous energy price cycles. The investors in the funds are believed to be primarily institutional investors, such as large pensions, foundations, trusts and high net worth family offices.

During the first quarter of 2015, a number of the Company's energy-related lending customers took significant steps to mitigate risk, including pay-downs resulting from refinancing that was driven in part by stronger capital markets activities within the energy sector (including issuance of additional public and private equity and debt).

Due to continued weakness in oil and gas prices, the Company took steps this quarter to review a number of energy-related credits prior to the regularly scheduled borrowing base redetermination. This action resulted in some credits being regraded. These steps were consistent with the Company's effort to mitigate credit risks. The pattern of a significant increase in graded or classified energy loans as well as the increase in nonaccrual energy loans is generally consistent with prior cycles.

Adjustments made by energy industry participants appear to be occurring more rapidly in this cycle, including for example, reducing drilling activity and raising additional capital. However, additional increases in energy-related classified loans and decreases in unfunded commitments are likely to occur during the second quarter of 2015 as the Company completes its semiannual borrowing base redetermination process. The Company considers these and other factors when establishing the level of the allowance for credit losses. During the six-month period beginning September 30, 2014, as energy prices declined significantly, Amegy Bank increased its allowance for credit losses by \$55 million.



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## 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             | California | Colorado | Nevada | Texas   | Utah/ Idaho | Wash-in | Other <sup>1</sup> |         |                |
| <b>Commercial term</b>                               |            |                     |            |          |        |         |             |         |                    |         |                |
| Balance outstanding                                  | 3/31/2015  | \$1,136             | \$2,755    | \$413    | \$542  | \$1,303 | \$1,055     | \$273   | \$611              | \$8,088 | 79.8 %         |
| % of loan type                                       |            | 14.0 %              | 34.1 %     | 5.1 %    | 6.7 %  | 16.1 %  | 13.0 %      | 3.4 %   | 7.6 %              | 100.0 % | %              |
| <b>Delinquency rates<sup>2</sup>:</b>                |            |                     |            |          |        |         |             |         |                    |         |                |
| 30-89 days   | 3/31/2015  | 0.1 %               | 0.2 %      | — %      | 0.5 %  | 0.4 %   | 0.1 %       | 0.2 %   | 0.3 %              | 0.2 %   | %              |
|  | 12/31/2014 | — %                 | 0.1 %      | — %      | 0.4 %  | — %     | 0.6 %       | 0.3 %   | 0.2 %              | 0.2 %   | %              |
| ≥ 90 days  | 3/31/2015  | 0.1 %               | 0.4 %      | — %      | 0.9 %  | 0.2 %   | 0.7 %       | 0.5 %   | 0.6 %              | 0.4 %   | %              |
|  | 12/31/2014 | 0.1 %               | 0.6 %      | — %      | 0.6 %  | 0.1 %   | 0.3 %       | 0.3 %   | 1.0 %              | 0.4 %   | %              |
| <b>Accruing loans past due 90 days or more</b>       |            |                     |            |          |        |         |             |         |                    |         |                |
|  | 3/31/2015  | \$—                 | \$12       | \$—      | \$5    | \$—     | \$3         | \$1     | \$1                | \$22    |                |
|  | 12/31/2014 | —                   | 12         | —        | 4      | —       | 3           | 1       | —                  | 20      |                |
| <b>Nonaccrual loans</b>                              |            |                     |            |          |        |         |             |         |                    |         |                |
|  | 3/31/2015  | \$7                 | \$5        | \$1      | \$3    | \$6     | \$5         | \$—     | \$11               | \$38    |                |
|  | 12/31/2014 | 2                   | 8          | 1        | 1      | 2       | 1           | —       | 10                 | 25      |                |
| <b>Residential construction and land development</b> |            |                     |            |          |        |         |             |         |                    |         |                |
| Balance outstanding                                  | 3/31/2015  | \$54                | \$316      | \$48     | \$7    | \$248   | \$98        | \$18    | \$16               | \$805   | 7.9 %          |
| % of loan type                                       |            | 6.7 %               | 39.3 %     | 6.0 %    | 0.9 %  | 30.8 %  | 12.2 %      | 2.2 %   | 1.9 %              | 100.0 % | %              |
| <b>Delinquency rates<sup>2</sup>:</b>                |            |                     |            |          |        |         |             |         |                    |         |                |
| 30-89 days   | 3/31/2015  | — %                 | 0.4 %      | — %      | — %    | 0.1 %   | — %         | — %     | — %                | 0.2 %   | %              |
|  | 12/31/2014 | — %                 | — %        | — %      | — %    | — %     | — %         | — %     | — %                | — %     | %              |
| ≥ 90 days  | 3/31/2015  | — %                 | — %        | — %      | — %    | 2.3 %   | — %         | — %     | — %                | 0.7 %   | %              |
|  | 12/31/2014 | — %                 | — %        | — %      | — %    | 2.6 %   | — %         | — %     | — %                | 0.8 %   | %              |
| <b>Accruing loans past due 90 days or more</b>       |            |                     |            |          |        |         |             |         |                    |         |                |
|  | 3/31/2015  | \$—                 | \$—        | \$—      | \$—    | \$—     | \$—         | \$—     | \$—                | \$—     |                |
|  | 12/31/2014 | —                   | —          | —        | —      | —       | —           | —       | —                  | —       |                |
| <b>Nonaccrual loans</b>                              |            |                     |            |          |        |         |             |         |                    |         |                |
|  | 3/31/2015  | \$—                 | \$—        | \$—      | \$—    | \$6     | \$—         | \$—     | \$—                | \$6     |                |
|  | 12/31/2014 | —                   | —          | —        | —      | 7       | —           | —       | —                  | 7       |                |
| <b>Commercial construction and land development</b>  |            |                     |            |          |        |         |             |         |                    |         |                |
|  | 3/31/2015  | \$75                | \$289      | \$87     | \$70   | \$388   | \$257       | \$24    | \$50               | \$1,240 | 12.3 %         |

|   |            |         |         |       |       |         |         |       |       |          |        |  |
|---|------------|---------|---------|-------|-------|---------|---------|-------|-------|----------|--------|--|
| Balance outstanding                     |            |         |         |       |       |         |         |       |       |          |        |  |
| % of loan type                          |            | 6.1     | % 23.3  | % 7.0 | % 5.6 | % 31.3  | % 20.7  | % 2.0 | % 4.0 | % 100    | %      |  |
| Delinquency rates <sup>2</sup> :        |            |         |         |       |       |         |         |       |       |          |        |  |
| 30-89 days                              | 3/31/2015  | 2.5     | % —     | % —   | % —   | % 0.1   | % 0.1   | % —   | % —   | % 0.2    | %      |  |
|   | 12/31/2014 | —       | % 0.5   | % 0.1 | % —   | % 0.2   | % 0.1   | % —   | % —   | % 0.2    | %      |  |
| ≥ 90 days                               | 3/31/2015  | —       | % 1.2   | % —   | % —   | % 0.9   | % 0.2   | % —   | % —   | % 0.6    | %      |  |
|   | 12/31/2014 | —       | % 0.9   | % —   | % —   | % 0.9   | % —     | % —   | % —   | % 0.5    | %      |  |
| Accruing loans past due 90 days or more | 3/31/2015  | \$—     | \$2     | \$—   | \$—   | \$—     | \$1     | \$—   | \$—   | \$3      |        |  |
|   | 12/31/2014 | —       | —       | —     | —     | —       | —       | —     | —     | —        |        |  |
| Nonaccrual loans                        | 3/31/2015  | \$—     | \$2     | \$—   | \$—   | \$3     | \$11    | \$—   | \$—   | \$16     |        |  |
|   | 12/31/2014 | —       | 2       | —     | —     | 4       | 11      | —     | —     | 17       |        |  |
| Total construction and land development | 3/31/2015  | \$129   | \$605   | \$135 | \$77  | \$636   | \$355   | \$42  | \$66  | \$2,045  |        |  |
| Total commercial real estate            | 3/31/2015  | \$1,265 | \$3,360 | \$548 | \$619 | \$1,939 | \$1,410 | \$315 | \$677 | \$10,133 | 100.0% |  |

<sup>1</sup>No other geography exceeds \$77 million for all three loan types.

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

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Approximately 23% of the CRE term loans consist of mini-perm loans as of March 31, 2015. 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 77% of CRE loans are term loans with initial maturities generally of 5 to 20 years. The stabilization criteria for a project to qualify for a term loan differ by product type and include criteria related to the cash flow generated by the project, loan-to-value ratio, and occupancy rates.

Approximately \$200 million, or 16%, of the commercial construction and land development portfolio at March 31, 2015 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. Remargining requirements (required equity infusions upon a decline in value of the collateral) are often included in the loan agreement along with guarantees of the sponsor. Recognizing that debt is paid via cash flow, the projected cash flows of the project are critical 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.

Within the residential construction and development sector, many of the requirements previously mentioned, such as creditworthiness and experience of the developer, up-front injection of the developer's equity, principal curtailment requirements, and the viability of the project are also important in underwriting a residential development loan. Significant consideration is given to the likely 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 independent of the loan officer and the borrower, generally by each 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 an adverse grade (i.e., "criticized" or "classified"). We increase the frequency of obtaining updated appraisals for adversely graded credits when declining market conditions exist.

Advance rates (i.e., loan commitments) will vary based on the viability of the project and the creditworthiness of the sponsor, but our 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 homes not under contract, 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, while 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.

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Additionally, when we modify or extend a loan, we give consideration to whether the borrower is in financial difficulty, and whether we have granted a concession. In determining if an interest rate concession has been granted, we consider whether the interest rate on the modified loan is equivalent to current market rates for new debt with similar risk characteristics. If the rate in the modification is less than current market rates, it may indicate that a concession was granted and impairment exists. However, if additional collateral is obtained or if a strong guarantor exists who is believed to be able and willing to support the loan on an extended basis, we also consider the nature and amount of the additional collateral and guarantees in the ultimate determination of whether a concession has been granted.

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

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

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

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

#### Consumer Loans

The Company has mainly been an originator of first and second mortgages, generally considered to be of prime quality. Historically, the Company's practice 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. We actively monitor loan "put-backs" (required repurchases of loans previously sold to Fannie Mae or Freddie Mac due to inadequate documentation or other reasons). Loan put-backs have been minimal over a multiple-year period. We estimate that the Company does not have any material risk as a result of either its foreclosure practices or loan put-backs and has not established any reserves related to these items.

The Company is engaged in home equity credit line ("HECL") lending. At March 31, 2015, the Company's HECL portfolio totaled \$2.3 billion. Approximately \$1.2 billion of the portfolio is secured by first deeds of trust, while the remaining \$1.1 billion is secured by junior liens.



As of March 31, 2015, loans representing approximately 4% 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

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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 95% of the Company's HECL portfolio is still in the draw period, and approximately 34% is scheduled to begin amortizing within the next five years. 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 analysis indicates that the risk of loss from this factor is minimal in the current economic environment. The annualized credit losses for the HECL portfolio were -1 bps and 3 bps for the first three months of 2015 and 2014, 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 increased slightly to 0.99% at March 31, 2015, compared to 0.81% at December 31, 2014.

Total nonaccrual loans at March 31, 2015 increased by \$75 million from December 31, 2014. The increase is primarily due to increases in energy-related loans at Amegy Bank, the vast majority of which are current with payments, while other commercial and industrial loans, commercial owner occupied loans, and commercial real estate term loans also experienced modest increases. Aside from Amegy Bank, the largest total increases in nonaccrual loans occurred at Zions Bank, NBAZ, and Vectra.

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" following for more information. Company policy 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)  | March 31,<br>2015 | December 31,<br>2014 |  |   |
|--|-------------------|----------------------|--|---|
| Nonaccrual loans <sup>1</sup>  | \$382             | \$307                |  |   |
| Other real estate owned  | 17                | 19                   |  |   |
| Total nonperforming lending-related assets   | \$399             | \$326                |  |   |
| Ratio of nonperforming lending-related assets to net loans and leases <sup>1</sup> and other real estate owned | 0.99              | % 0.81               |  | % |
| Accruing loans past due 90 days or more  | \$32              | \$29                 |  |   |
| Ratio of accruing loans past due 90 days or more to loans and leases <sup>1</sup>                              | 0.08              | % 0.07               |  | % |
| Nonaccrual loans and accruing loans past due 90 days or more   | \$414             | \$336                |  |   |
| Ratio of nonaccrual loans and accruing loans past due 90 days or more to loans and leases <sup>1</sup>         | 1.03              | % 0.84               |  | % |
| Accruing loans past due 30 - 89 days   | \$97              | \$86                 |  |   |
| Nonaccrual loans current as to principal and interest payments   | 55.2              | % 50.4               |  | % |

<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. TDRs declined 10% during

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the first three months of 2015, mainly due to payments and payoffs. 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 on the B note 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 \$86 million at March 31, 2015 and \$112 million at December 31, 2014.

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)                    | March 31,<br>2015 | December 31,<br>2014 |
|----------------------------------|-------------------|----------------------|
| Restructured loans – accruing    | \$ 199            | \$ 245               |
| Restructured loans – nonaccruing | 110               | 98                   |
| Total                            | \$ 309            | \$ 343               |

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<br>March 31, |        |
|---|---------------------------------|--------|
|   | 2015                            | 2014   |
| Balance at beginning of period              | \$ 343                          | \$ 481 |
| New identified TDRs and principal increases | 13                              | 14     |
| Payments and payoffs                        | (46                             | ) (33  |
| Charge-offs                                 | (1                              | ) (1   |
| No longer reported as TDRs                  | —                               | (11    |
| Sales and other                             | —                               | (1     |
| Balance at end of period                    | \$ 309                          | \$ 449 |

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.

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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)   | Three Months<br>Ended<br>March 31, 2015 | Twelve<br>Months<br>Ended<br>December 31,<br>2014 | Three Months<br>Ended<br>March 31,<br>2014 |  |  |
|---|---|---|--|--|--|
| Loans and leases outstanding (net of unearned income)   | \$40,180                                | \$40,064  | \$39,198                                   |  |  |
| Average loans and leases outstanding (net of unearned income)   | \$40,179                                | \$39,523  | \$39,125                                   |  |  |
| Allowance for loan losses:  |   |   |  |  |  |
| Balance at beginning of period  | \$605                                   | \$746   | \$746                                      |  |  |
| Provision charged against earnings  | (2 )                                    | (98 )   | (1 )                                       |  |  |
| Adjustment for FDIC-supported/PCI loans   | —                                       | (1 )  | (1 )                                       |  |  |
| Charge-offs:  |   |   |  |  |  |
| Commercial  | (16 )                                   | (77 )   | (10 )                                      |  |  |
| Commercial real estate  | (1 )                                    | (15 )   | (8 )                                       |  |  |
| Consumer  | (3 )                                    | (14 )   | (3 )                                       |  |  |
| Total   | (20 )                                   | (106 )  | (21 )                                      |  |  |
| Recoveries:   |   |   |  |  |  |
| Commercial  | 21                                      | 41  | 8  |  |  |
| Commercial real estate  | 14                                      | 12  | 3  |  |  |
| Consumer  | 2                                       | 11  | 2  |  |  |
| Total   | 37                                      | 64  | 13   |  |  |
| Net loan and lease charge-offs  | 17                                      | (42 )   | (8 )                                       |  |  |
| Balance at end of period  | \$620                                   | \$605   | \$736                                      |  |  |
| Ratio of annualized net charge-offs to average loans and leases   | (0.17 )%                                | 0.11 %  | 0.08 %                                     |  |  |
| Ratio of allowance for loan losses to net loans and leases, at period end   | 1.54 %                                  | 1.51 %  | 1.88 %                                     |  |  |
| Ratio of allowance for loan losses to nonperforming loans, at period end  | 162.28 %                                | 197.18 %  | 183.47 %                                   |  |  |
| Ratio of allowance for loan losses to nonaccrual loans and accruing loans past due 90 days or more, at period end | 149.90 %                                | 180.03 %  | 167.54 %                                   |  |  |

The total ALLL increased during the first three months of 2015 by \$15 million due to the slight deterioration in various credit metrics primarily related to the energy-related loans at Amegy Bank; other credit metric trends not related to energy lending were generally stable. During the six-month period beginning September 30, 2014, as energy prices have declined significantly, Amegy Bank has increased its ACL by \$55 million. This increase was partially offset by a reduction in the allowance elsewhere, due to favorable changes in credit quality outside of the energy industry.

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 \$1.2 million compared to December 31, 2014, and decreased by \$6.4 million from March 31, 2014.

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.

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Interest Rate and Market Risk Management

Interest rate and market risk are managed centrally. 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 net interest income increase in a rising interest rate environment. We refer to this goal as being "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.

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, and we have tended to operate near interest rate risk "triggers" and appetites noted in the following schedule. However, if interest rates remain at their current historically low levels, given the Company's asset sensitivity, we would expect the Company's net interest margin to be under continuing modest pressure assuming a balance sheet that is static in size. In order to mitigate this pressure and to increase holdings in HQLA securities, in 2014, we began deploying cash into short-to-medium duration agency pass-through securities. In the first quarter of 2015, we purchased HQLA securities of \$666 million at amortized cost and are continuing these purchases. Over time these purchases are expected to somewhat reduce our asset sensitivity compared to previous periods.

Interest Rate Risk Measurement

We monitor interest rate risk through the use of two complementary measurement methods: net interest income simulation and Economic Value of Equity at Risk ("EVE"). In the net interest income simulation method, we analyze the expected change in net interest income in response to changes in interest rates. In the EVE method, we measure the expected changes in the fair value of equity in response to changes in interest rates.

Net interest income simulation is an estimate of the total net interest income that would be recognized under different rate environments. Net interest income is measured under several parallel and nonparallel interest rate environments and deposit repricing assumptions, taking into account an estimate of the possible exercise of embedded options within the portfolio (e.g., a borrower's ability to refinance a loan under a lower rate environment). The Company's policy contains a trigger for a 10% decline in rate sensitive income as well as a risk capacity of a 13% decline if rates were to immediately rise or fall in parallel by 200 bps. This trigger and risk capacity apply to both the fast and the slow deposit assumptions.

EVE is calculated as the fair value of all assets and derivative instruments minus the fair value of liabilities. We measure changes in the dollar amount of EVE for parallel shifts in interest rates. Due to embedded optionality and asymmetric rate risk, changes in EVE can be useful in quantifying risks not apparent for small rate changes. Examples of such risks may include out-of-the-money interest rate caps (or limits) on loans, which have little effect under small rate movements but may become important if large rate changes were to occur, or substantial prepayment deceleration for low rate mortgages in a higher rate environment. The Company's policy is to limit declines in EVE to 4% per 100 bps movement in interest rates in either direction. The following schedule presents the formal EVE limits adopted by the Company's Board of Directors. Changes or exceptions to the EVE limits are subject to notification and approval by the Risk Oversight Committee of the Company's Board of Directors.





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## ECONOMIC VALUE OF EQUITY DECLINE LIMITS

| Parallel change in interest rates | Trigger decline in EVE |   | Risk capacity decline in EVE |   |
|-----------------------------------|------------------------|---|------------------------------|---|
| +/- 100 bps                       | 3                      | % | 4                            | % |
| +/- 200 bps                       | 6                      | % | 8                            | % |
| +/- 300 bps                       | 9                      | % | 12                           | % |

## New Interest Rate Risk Model and Comparisons

As discussed in the Company's 2014 Annual Report on Form 10-K, in the first quarter of 2015, we adopted a new model to estimate the impact to net interest income and to EVE from changes in interest rates. We made the change because the new model is believed to better reflect customer behavior, particularly with regard to dynamic prepayment speeds (i.e., incrementally slower prepayment speeds on mortgages with incrementally higher interest rate changes) and deposit characteristics (i.e., faster deposit product migration to interest-bearing accounts for larger deposit balances). We ran both models in parallel for several months and members of ALCO scrutinized the results. Additionally, rigorous statistical validation of the new model was conducted prior to its adoption. The results of both the old model and the new model are shown below for comparison purposes.

Regardless of the model used, estimating the impact on net interest income and EVE 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 deposit withdrawals and deposit product migration (e.g., customers moving money from checking accounts to certificates of deposit), competitive pricing (e.g., existing loans and deposits are assumed to roll into new loans and deposits at similar spreads relative to benchmark interest rates), loan and security prepayments, and the effects of other similar embedded options. As a result of uncertainty about the maturity and repricing characteristics of both deposits and loans, we estimate ranges of possible net interest income and EVE results under a variety of assumptions and scenarios. The modeled results are highly sensitive to the assumptions used for deposits that do not have specific maturities, such as checking, savings and money market accounts, and also to prepayment assumptions used for loans with prepayment options. We use 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. Additionally, competition for funding in the marketplace has and may again result in changes of deposit pricing on interest-bearing accounts that is greater or less than changes in benchmark interest rates such as LIBOR or the federal funds rate.

Under most rising interest rate environments, we would expect some customers to move balances in demand deposits to interest-bearing accounts such as money market, savings, or CDs. The models are particularly sensitive to the assumption about the rate of such migration. In order to capture the sensitivity of our models to this risk, we estimate a range of possible outcomes for interest sensitivity under "fast" and "slow" movements of client funds out of noninterest-bearing deposits and into interest-bearing sources of funds.

In addition, we assume certain correlation rates, often referred to as a "deposit beta," of interest-bearing deposits, wherein the rates paid to customers change at a different pace when compared to changes in benchmark interest rates. Generally, certificates of deposit are assumed to have a high correlation rate, while interest-on-checking accounts are assumed to have a lower correlation rate. Actual results may differ materially due to factors including competitive pricing, money supply, credit worthiness of the Company, and so forth; however, the Company uses its historical experience as well as industry data to inform its assumptions.



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The aforementioned migration and correlation assumptions result in deposit durations presented in the following schedule:

| Product                          | As of March 31, 2015                |                               |                                     |                               |   |
|----------------------------------|-------------------------------------|-------------------------------|-------------------------------------|-------------------------------|---|
|                                  | Fast Effective duration (unchanged) | Effective duration (+200 bps) | Slow Effective duration (unchanged) | Effective duration (+200 bps) |   |
| Demand deposits                  | 2.2                                 | % 1.3                         | % 2.7                               | % 1.9                         | % |
| Money market                     | 1.4                                 | % 1.2                         | % 1.8                               | % 1.6                         | % |
| Savings and interest on checking | 2.7                                 | % 1.9                         | % 3.2                               | % 2.7                         | % |

As of the dates indicated and incorporating the assumptions previously described, the following schedule shows the Company's estimated percentage change in net interest income, based on a static balance sheet size, in the first year after the interest rate change if interest rates were to sustain immediate parallel changes ranging from -100 bps to +300 bps.

## INCOME SIMULATION – CHANGE IN NET INTEREST INCOME

| Repricing scenario | As of March 31, 2015                                   |   |        |        |        |   |
|--------------------|--|---|--------|--------|--------|---|
|                    | Parallel shift in rates (in basis points) <sup>1</sup> |   |        |        |        |   |
|                    | -100   | 0 | +100   | +200   | +300   |   |
| Fast               | (2.0 )%  | — | % 8.0  | % 14.4 | % 18.9 | % |
| Slow               | (2.4 )%  | — | % 10.8 | % 20.8 | % 29.6 | % |

<sup>1</sup> Assumes rates cannot go below zero in the negative rate shift.

For comparative purposes, we applied the new model to the December 31, 2014 balances; these results are presented in the following schedule.

| Repricing scenario | As of December 31, 2014                                |   |        |        |        |   |
|--------------------|--|---|--------|--------|--------|---|
|                    | Parallel shift in rates (in basis points) <sup>1</sup> |   |        |        |        |   |
|                    | -100   | 0 | +100   | +200   | +300   |   |
| Fast               | (2.6 )%  | — | % 7.8  | % 14.1 | % 18.7 | % |
| Slow               | (3.0 )%  | — | % 10.7 | % 20.7 | % 29.6 | % |

<sup>1</sup> Assumes rates cannot go below zero in the negative rate shift.

As of the dates indicated and incorporating the assumptions previously described, the following schedule shows the Company's estimated percentage change in EVE under parallel interest rate changes ranging from -100 bps to +300 bps.

## CHANGES IN ECONOMIC VALUE OF EQUITY

| Repricing scenario | As of March 31, 2015 |       |          |          |          |   |
|--------------------|----------------------|-------|----------|----------|----------|---|
|                    | -100 bps             | 0 bps | +100 bps | +200 bps | +300 bps |   |
| Fast               | 0.4                  | % —   | % 2.8    | % 3.8    | % 3.1    | % |
| Slow               | (0.9                 | )% —  | % 5.4    | % 9.5    | % 12.2   | % |

For comparative purposes, we applied the new model to the December 31, 2014 balances; these results are presented in the following schedule.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| Repricing scenario | As of December 31, 2014 |       |          |          |          |   |
|--------------------|-------------------------|-------|----------|----------|----------|---|
|                    | -100 bps                | 0 bps | +100 bps | +200 bps | +300 bps |   |
| Fast               | (0.8                    | )% —  | % 2.4    | % 3.1    | % 2.2    | % |
| Slow               | (2.4                    | )% —  | % 5.1    | % 9.0    | % 11.4   | % |

**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 March 31, 2015, the Company had a relatively small amount, \$71 million, of trading assets that remained relatively unchanged from the previous quarter and \$7 million of securities sold, not yet purchased, compared with \$24 million, at December 31, 2014.

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 first quarter of 2015, the after-tax change in AOCI attributable to AFS and HTM securities was an increase of \$12 million compared to a \$49 million increase in the same prior year period. The primary reason for the \$12 million increase in the first quarter of 2015 is the result of the Company reclassifying all of the remaining CDO securities, or approximately \$79 million at amortized cost, to AFS securities. The reclassification reduced existing unrealized losses in OCI of \$40 million on HTM securities by approximately \$18 million pretax. These existing unrealized losses resulted from a previous reclassification of AFS securities to HTM, and from OTTI. We took this action as a result of the most recent Dodd-Frank Act stress test results and the treatment of the CDO securities under the new Basel III capital and risk weighting rules that became effective January 1, 2015. The reclassification provides the Company with greater flexibility in the management of these securities. Current accounting guidance allows for the reclassification of HTM to AFS securities, without calling into question the entity's intent to hold other debt securities to maturity, when there has been a significant increase in the risk weights of debt securities used for regulatory risk-based capital purposes. No gain or loss was recognized in the statement of income at the time of reclassification. 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 59 for additional information on OTTI.

**Market Risk – Equity Investments**

Through its equity investment activities, the Company owns equity securities that are publicly traded. In addition, the Company owns equity securities in companies and governmental entities, e.g., Federal Reserve Bank and Federal Home Loan Banks, that are not publicly traded. The accounting for equity investments may use the cost, fair value, equity, or full consolidation methods of accounting, depending upon the Company's ownership position and degree of involvement in influencing the investees' affairs. 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.

The Company holds investments in pre-public companies through various predominantly SBIC venture capital funds. The Company's equity exposure to these investments was approximately \$95 million at March 31, 2015 and \$86 million at December 31, 2014.

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 because the underlying

companies were typically not creditworthy. The carrying value of Amegy's equity investments was \$32 million at March 31, 2015 and \$38 million at December 31, 2014.

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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 21, 2016, as currently extended, except for SBIC funds. The Federal Reserve has announced its intention to act in 2015 to grant an additional one-year extension to July 21, 2017. As of March 31, 2015, such prohibited private equity investments, except for SBIC funds, amounted to \$33 million, with an additional \$8 million of unfunded commitments (see Notes 5 and 11 for more information). The Company currently does not believe that this divestiture requirement will ultimately have a material effect on the Company's financial statements.

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.

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 \$8.9 billion at March 31, 2015 from \$9.2 billion at December 31, 2014. The \$0.3 billion decrease during the first three months of 2015 resulted primarily from (1) an increase in investment securities, (2) net loan originations, and (3) a net repayment of long- and short-term debt. These decreases were partially offset by (1) an increase in deposits and (2) net cash provided by operating activities.

During the first three months of 2015, the Company's investment securities increased by \$551 million. This increase resulted primarily due to an increase in the purchases of short-to-medium duration agency pass-through securities that were generally funded through reduction of interest-bearing deposits held for investment. We expect to continue to deploy cash and short-term investments into HQLA in the next several quarters.

Liquidity Regulation

In September 2014, U.S. banking regulators issued a final rule that implements 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 this rule, the Company is subject to a modified LCR standard, which requires a financial institution to hold an adequate amount of unencumbered 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. Although this rule is not applicable to the Company and other banks of its size until January 2016, the Company has calculated that it is in compliance with the requirement to maintain a modified LCR of at least 100%.

The Company is required to and is conducting monthly liquidity stress tests as of January 2015. These tests incorporate scenarios designed by the Company subject to review by the Federal Reserve.

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 its on- and off-balance sheet activities. On October 31, 2014, the Basel Committee on Banking Supervision issued its final standards for this ratio, entitled Basel III: The Net Stable Funding Ratio. Based upon this Basel III publication,



we believe the Company would meet the minimum NSFR if such requirement were currently effective.

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However, the Federal Reserve has not yet proposed regulations to implement these Basel Committee standards. The Company is monitoring these developments.

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 \$1.0 billion at March 31, 2015, essentially unchanged from the December 31, 2014 balance. Dividends received from subsidiary banks on common and preferred stock offset debt and interest payments.

At March 31, 2015, the Parent's long-term debt maturities during the remainder of 2015 consist of \$223 million carrying value of subordinated/convertible subordinated notes due as follows: 6.0% \$106 million on September 15, 2015 and 5.5% \$117 million on November 16, 2015. In addition, the Parent has given notice that it will redeem in full \$19 million of senior notes on May 30, 2015 under an early redemption provision. See Note 8 for additional detail about the Company's debt maturities.

During the first three months of 2015, the Parent received dividends on common stock and return of common equity totaling \$44 million and dividends on preferred stock totaling \$10 million from its subsidiary banks. During the first three months of 2014, the Parent received \$50 million from its subsidiaries for dividends on common stock and return of common equity and \$8 million from dividends on preferred stock. 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 three months of 2015, 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 by the subsidiaries to the Parent during the remainder of 2015.

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 three months of 2015. 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 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.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The following schedule presents the Parent's balance sheets as of March 31, 2015, December 31, 2014, and March 31, 2014.

## PARENT ONLY CONDENSED BALANCE SHEETS

| (In thousands)  | March 31,<br>2015 | December 31,<br>2014 | March 31,<br>2014 |
|---|-------------------|----------------------|-------------------|
| <b>ASSETS</b>   |                   |                      |                   |
| Cash and due from banks   | \$2,020           | \$2,023              | \$1,223,423       |
| Interest-bearing deposits   | 1,025,878         | 1,007,916            | 89                |
| Investment securities:  |                   |                      |                   |
| Held-to-maturity, at adjusted cost (approximate fair value of \$0, \$34,691 and \$33,704) | —                 | 17,292               | 17,336            |
| Available-for-sale, at fair value   | 162,745           | 130,964              | 338,053           |
| Other noninterest-bearing investments   | 26,892            | 29,091               | 30,161            |
| Investments in subsidiaries:  |                   |                      |                   |
| Commercial banks and bank holding company   | 7,049,186         | 6,995,000            | 6,771,460         |
| Other operating companies   | 25,197            | 22,948               | 30,456            |
| Nonoperating – ZMFU II, Inc! <sup>1</sup>   | 44,989            | 44,792               | 44,459            |
| Receivables from subsidiaries:  |                   |                      |                   |
| Other operating companies   | 23,060            | 15,060               | 10,000            |
| Other assets  | 93,075            | 106,224              | 216,296           |
|   | \$8,453,042       | \$8,371,310          | \$8,681,733       |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                   |                      |                   |
| Other liabilities   | \$84,785          | \$85,275             | \$187,348         |
| Subordinated debt to affiliated trusts  | 15,464            | 15,464               | 15,464            |
| Long-term debt:   |                   |                      |                   |
| Due to affiliates   | 250               | 20                   | 266               |
| Due to others   | 898,245           | 901,021              | 1,892,439         |
| Total liabilities   | 998,744           | 1,001,780            | 2,095,517         |
| Shareholders' equity:   |                   |                      |                   |
| Preferred stock   | 1,004,032         | 1,004,011            | 1,003,970         |
| Common stock  | 4,728,556         | 4,723,855            | 4,185,513         |
| Retained earnings   | 1,836,619         | 1,769,705            | 1,542,195         |
| Accumulated other comprehensive loss  | (114,909)         | (128,041)            | (145,462)         |
| Total shareholders' equity  | 7,454,298         | 7,369,530            | 6,586,216         |
|   | \$8,453,042       | \$8,371,310          | \$8,681,733       |

<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.

The Parent's cash payments for interest, reflected in operating expenses, decreased to \$9 million during the first three months of 2015 from \$26 million during the first three months of 2014 due to continued maturity and repayment of debt. Additionally, the Parent paid approximately \$23 million and \$24 million of total dividends on preferred stock and common stock during the first three months of 2015 and 2014, respectively.

At March 31, 2015, maturities of the Parent's long-term senior and subordinated debt ranged from September 2015 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 both March 31, 2015 and December 31, 2014,

these core deposits, excluding brokered deposits, in aggregate, constituted 97.3% of consolidated deposits, compared with 97.2% at March 31, 2014. On a consolidated basis, the Company's loan to total deposit ratio was 83.5% at March 31, 2015, compared to 83.7% at December 31, 2014 and 84.2% at March 31, 2014.

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ZIONS BANCORPORATION AND SUBSIDIARIES

Total deposits increased by \$275 million to \$48.1 billion at March 31, 2015, compared to \$47.8 billion at December 31, 2014, primarily due to an \$326 million increase in noninterest-bearing demand deposits and a \$54 million increase in foreign time deposits. These increases were partially offset by a \$105 million decrease in savings and money market and time deposits.

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 and TCBW 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 March 31, 2015, the amount available for additional FHLB and Federal Reserve borrowings was approximately \$16.5 billion. Loans with a carrying value of approximately \$22.6 billion at March 31, 2015 and \$22.5 billion at December 31, 2014, 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 both March 31, 2015 and December 31, 2014. The Company had no short-term FHLB or Federal Reserve borrowings outstanding at March 31, 2015, which was unchanged from December 31, 2014. At March 31, 2015, the subsidiary banks' total investment in FHLB and Federal Reserve stock was \$103 million and \$121 million, respectively. The Company's investments in FHLB and Federal Reserve stock did not fluctuate more than \$1 million during the first three months of 2015.

The Company's investment activities can provide or use cash, depending on the asset liability management posture taken. During the first three months of 2015, HTM & AFS investment securities' activities resulted in a net increase in investment securities and a net \$539 million decrease in cash compared with a net \$378 million increase in cash for the first three months of 2014.

Maturing balances in our subsidiary banks' loan portfolios also provide additional flexibility in managing cash flows. Lending and purchase activity for the first three months of 2015 resulted in a net cash outflow of \$100 million compared to a net cash outflow of \$166 million for the first three months of 2014.

A more comprehensive discussion of our liquidity management is contained in the Company's 2014 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 related to financial reporting under the 2013 framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 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 undertake significant efforts to maintain contingency and business continuity plans 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.

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The Company is continually improving its oversight of operational risk, including enhancement of risk identification, risk and control self-assessments, and antifraud measures, which are reported on a regular basis to two management committees. The Operational Risk Committee reports to the Enterprise Risk Management Committee, which reports to the Risk Oversight Committee of the Board of Directors. Late in 2013, the Company further improved operational risk management by creating and staffing the position of Director of Corporate Operational Risk in order to consolidate and enhance its risk oversight functions.

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. 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. The Company continues to review this area of its operations to help ensure that it manages this risk in an effective manner.

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 \$0.1 billion to \$7.5 billion at March 31, 2015 from \$7.4 billion at December 31, 2014. The increase in total shareholders' equity is primarily due to net income of \$92 million, partially offset by \$24.9 million of dividends recorded on preferred and common stock.

The Company has maintained its quarterly dividend on common stock at \$0.04 per share since the second quarter of 2013. The Company paid \$8.2 million in dividends on common stock during the first three months of 2015, compared to \$7.4 million during the first three months of 2014. During its April 2015 meeting, the Board of Directors declared a quarterly dividend of \$0.06 per common share payable on May 28, 2015 to shareholders of record on May 21, 2015.

The Company recorded dividends on preferred stock of \$16.7 million and \$25.0 million for the first three months of 2015 and 2014, respectively. Dividends on preferred stock recorded in the first three months of 2015 and 2014 included accruals of \$1.7 million and \$8.7 million, respectively. The Company's 2015 capital plan, to which the Federal Reserve did not object, includes the reduction of up to \$300 million in preferred stock. See discussion under "Capital Plan and Stress Tests" on page 86.

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 March 31, 2015, December 31, 2014, and March 31, 2014.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## CAPITAL RATIOS

|   | March 31,<br>2015 | December 31,<br>2014 | March 31,<br>2014 |   |
|---|-------------------|----------------------|-------------------|---|
| Tangible common equity ratio  | 9.58              | % 9.48               | % 8.24            | % |
| Tangible equity ratio   | 11.35             | % 11.27              | % 10.06           | % |
| Average equity to average assets (three months ended)                     | 13.04             | % 13.21              | % 11.90           | % |
| Basel III risk-based capital ratios:                                      |                   |                      |                   |   |
| Common equity tier 1 capital <sup>1</sup>                                 | 11.95%            | 11.82%               |                   |   |
| Tier 1 leverage   | 11.75%            | 11.59%               |                   |   |
| Tier 1 risk-based   | 14.16%            | 14.03%               |                   |   |
| Total risk-based  | 16.22%            | 16.08%               |                   |   |
| Basel I risk-based capital ratios:  |                   |                      |                   |   |
| Tier 1 common   |                   | 11.92                | % 10.56           | % |
| Tier 1 leverage   |                   | 11.82                | % 10.71           | % |
| Tier 1 risk-based   |                   | 14.47                | % 13.19           | % |
| Total risk-based  |                   | 16.27                | % 15.11           | % |
| Return on average common equity (three months ended)                      | 4.77              | % 4.06               | % 5.52            | % |
| Tangible return on average tangible common equity<br>(three months ended) | 5.80              | % 4.95               | % 6.96            | % |

<sup>1</sup> Basel III capital ratios became effective January 1, 2015 and are based upon a 2015 phase-in. December 31, 2014 ratios are pro forma.

At March 31, 2015, Basel III regulatory Tier 1 risk-based capital and total risk-based capital was \$6.6 billion and \$7.5 billion, respectively. Basel I regulatory Tier 1 risk-based capital and total risk-based capital at December 31, 2014 was \$6.6 billion and \$7.4 billion, respectively.

A more comprehensive discussion of our capital management is contained in the Company's 2014 Annual Report on Form 10-K.

**Basel III**

The Basel III capital rules, which effectively replaced the Basel I rules, became effective for the Company on January 1, 2015 (subject to phase-in periods for certain of their components). In 2013, the FRB, FDIC, and OCC published 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 revised the risk-based capital requirements applicable to bank holding companies and depository institutions, including the Company, compared to the Basel I U.S. risk-based capital rules.

Under prior Basel I capital standards, the effects of AOCI items included in capital were excluded for purposes of determining regulatory capital and capital ratios. Under the Basel III Capital Rules, "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 made the decision to "opt out."



The Company met all capital adequacy requirements under the Basel III Capital Rules based upon a 2015 phase-in as of March 31, 2015, and believes that it would meet all capital adequacy requirements on a fully phased-in basis if such requirements were currently effective.

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ZIONS BANCORPORATION AND SUBSIDIARIES

A detailed discussion of Basel III requirements, including implications for the Company, are contained on page 8 of the “Supervision and Regulation” section under Part 1, Item 1 on the Company’s 2014 Annual Report on Form 10-K.

Capital Plan and Stress Tests

As a bank holding company with assets greater than \$50 billion, the Company is required by the Dodd-Frank Act to participate in annual stress tests known as the Dodd-Frank Act Stress Test (“DFAST”) and Federal Reserve’s Comprehensive Capital Analysis and Review (“CCAR”). The Company timely submitted its 2015 capital plan and stress test results to the FRB on January 5, 2015. In its capital plan, the Company was required to forecast under a variety of economic scenarios for nine quarters ending the fourth quarter of 2016, its estimated regulatory capital ratios, including its Tier 1 common ratio, under Basel I rules, its estimated regulatory capital ratios, including its Common Equity Tier 1 ratio, under Basel III rules, and its GAAP tangible common equity ratio. Under the implementing regulations for CCAR, a bank holding company may generally only raise and redeem capital, pay dividends and repurchase stock and take similar capital-related actions only under a capital plan as to which the FRB has not objected.

On March 11, 2015, the Company announced that the Federal Reserve notified the Company that it did not object to the capital actions outlined in its 2015 capital plan. The plan included (1) the increase of the quarterly common dividend to \$0.06 per share beginning in the second quarter of 2015; (2) the continued payment of preferred dividends at the current rates; and (3) up to \$300 million in total reduction of preferred equity. The Company has not yet determined the method, timing or particular issues of preferred stock that it might seek to reduce. The ultimate determination of these matters will depend on a number of factors, including market conditions and the receptivity of preferred investors to the terms of any preferred stock redemption offers, as well as the effect of other steps the Company may explore as it seeks to manage its capital in light of the most recent round of stress tests, any of which could result in a reduction or delay of the preferred equity reductions. The Company expects to manage any reduction of preferred equity such that total Tier 1 capital does not decline materially during the period covered by its CCAR 2015 capital plan.

GAAP to NON-GAAP RECONCILIATIONS

1. Basel I Tier 1 common capital

The Basel I capital rules were replaced by the new Basel III capital rules that became effective for the Company on January 1, 2015 (subject to phase-in periods for certain of their components). The Basel III capital rules include the Common Equity Tier 1 (“CET1”) capital ratio, which is the core capital component of the Basel III rules and a key ratio considered by regulators, investors, and analysts. The calculation of CET1, as defined under Basel III rules, is considered an acceptable ratio by GAAP for financial institutions and, accordingly, does not require reconciliation to GAAP.

There is a difference in the calculation of the CET1 capital ratio under Basel III rules and the calculation of Tier 1 common capital (“T1C”) under Basel I rules. We present the calculation of key regulatory capital ratios, including T1C common capital, using the governing definition at the end of each quarter, taking into account applicable phase-in rules.

While the Company was subject to Basel I capital rules prior to 2015, the Federal Reserve and other banking regulators assessed a bank’s capital adequacy based on Tier 1 capital, the calculation of which was codified in federal banking regulations. However, Basel I rules did not include a definition for T1C capital, and thus it was considered non-GAAP and required reconciliation to GAAP. The following schedule provides a reconciliation for prior periods

of total shareholders' equity (GAAP) to Tier 1 capital (regulatory at the subject dates) and to T1C capital (non-GAAP) using Basel I U.S. regulatory treatment.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## BASEL I TIER 1 COMMON CAPITAL (NON-GAAP)

| (Amounts in millions)                                    | December 31,<br>2014 | March 31,<br>2014 |   |   |
|--|----------------------|-------------------|---|---|
| Total shareholders' equity (GAAP)                        | \$7,370              | \$6,586           |   |   |
| Accumulated other comprehensive loss                     | 128                  | 145               |   |   |
| Nonqualifying goodwill and intangibles                   | (1,040)              | (1,048)           | ) | ) |
| Other regulatory adjustments                             | (1)                  | (6)               | ) | ) |
| Qualifying trust preferred securities                    | 163                  | 163               |   |   |
| Tier 1 capital (regulatory)                              | 6,620                | 5,840             |   |   |
| Qualifying trust preferred securities                    | (163)                | (163)             | ) | ) |
| Preferred stock  | (1,004)              | (1,004)           | ) | ) |
| Tier 1 common capital (non-GAAP)                         | \$5,453              | \$4,673           |   |   |
| Risk-weighted assets (regulatory)                        | \$45,738             | \$44,267          |   |   |
| Tier 1 common capital to risk-weighted assets (non-GAAP) | 11.92                | % 10.56           |   | % |

## 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 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 (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 |                      |                   |   |
|---|--------------------|----------------------|-------------------|---|
|   | March 31,<br>2015  | December 31,<br>2014 | March 31,<br>2014 |   |
| Net earnings applicable to common shareholders (GAAP)   | \$75,279           | \$66,761             | \$76,190          |   |
| Adjustments, net of tax:  |                    |                      |                   |   |
| Amortization of core deposit and other intangibles  | 1,496              | 1,676                | 1,827             |   |
| Net earnings applicable to common shareholders, excluding the effects of the adjustments, net of tax (non-GAAP) (a) | \$76,775           | \$68,437             | \$78,017          |   |
| Average common equity (GAAP)  | \$6,405,305        | \$6,521,187          | \$5,595,363       |   |
| Average goodwill  | (1,014,129)        | (1,014,129)          | (1,014,129)       |   |
| Average core deposit and other intangibles  | (24,355)           | (26,848)             | (35,072)          |   |
| Average tangible common equity (non-GAAP) (b)   | \$5,366,821        | \$5,480,210          | \$4,546,162       |   |
| Number of days in quarter (c)   | 90                 | 92                   | 90                |   |
| Number of days in year (d)  | 365                | 365                  | 365               |   |
| Tangible return on average tangible common equity (non-GAAP) (a/b/c*d)  | 5.80               | % 4.95               | % 6.96            | % |

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).

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## ZIONS BANCORPORATION AND SUBSIDIARIES

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

| (Amounts in millions)                 | March 31,<br>2015 | December 31,<br>2014 | March 31,<br>2014 |   |
|---------------------------------------|-------------------|----------------------|-------------------|---|
| Total shareholders' equity (GAAP)     | \$7,454           | \$7,370              | \$6,586           |   |
| Goodwill                              | (1,014)           | (1,014)              | (1,014)           | ) |
| Core deposit and other intangibles    | (23)              | (26)                 | (34)              | ) |
| Tangible equity (non-GAAP) (a)        | 6,417             | 6,330                | 5,538             |   |
| Preferred stock                       | (1,004)           | (1,004)              | (1,004)           | ) |
| Tangible common equity (non-GAAP) (b) | \$5,413           | \$5,326              | \$4,534           |   |
| <br>                                  |                   |                      |                   |   |
| Total assets (GAAP)                   | \$57,556          | \$57,209             | \$56,081          |   |
| Goodwill                              | (1,014)           | (1,014)              | (1,014)           | ) |
| Core deposit and other intangibles    | (23)              | (26)                 | (34)              | ) |
| Tangible assets (non-GAAP) (c)        | \$56,519          | \$56,169             | \$55,033          |   |
| <br>                                  |                   |                      |                   |   |
| Tangible equity ratio (a/c)           | 11.35             | % 11.27              | % 10.06           | % |
| Tangible common equity ratio (b/c)    | 9.58              | % 9.48               | % 8.24            | % |

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 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.

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 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 March 31, 2015. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2015. There were no changes in the Company's internal control over financial reporting during the first quarter of 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



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## 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 2014 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 first quarter of 2015:

## 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 |
|---------------|---|------------------------------|--|---|
| January       | 52,294  | \$25.33                      | —  | \$—   |
| February      | 2,549   | 26.24                        | —  | —   |
| March         | 370   | 27.98                        | —  | —   |
| First quarter | 55,213  | 25.39                        | —  | —   |

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, and the exercise of stock options, under provisions of an employee share-based compensation plan.

## ITEM 6. EXHIBITS

## a) Exhibits

| Exhibit Number | Description   |
|----------------|---|
| 3.1            | Restated Articles of Incorporation of Zions Bancorporation dated 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 February 27, 2015 (filed herewith).   |
| 10.1           | Zions Bancorporation 2015-2017 Value Sharing Plan (filed herewith).   |
| 31.1           | Certification by Chief Executive Officer required by Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (filed herewith).                  |
| 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).                  |





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ZIONS BANCORPORATION AND SUBSIDIARIES

| Exhibit Number | Description   |
|----------------|---|
| 32             | Certification by Chief Executive Officer and Chief Financial Officer required by Sections 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m) and 18 U.S.C. Section 1350 (furnished herewith).  |
| 101            | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014, (ii) the Consolidated Statements of Income for the three months ended March 31, 2015 and March 31, 2014, (iii) the Consolidated Statements of Comprehensive Income for the three months ended March 31, 2015 and March 31, 2014, (iv) the Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2015 and March 31, 2014, (v) the Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and March 31, 2014, 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: May 7, 2015