

ZIONS BANCORPORATION /UT/  
 Form 10-K  
 February 27, 2015

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

✓ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
 For the fiscal year ended December 31, 2014

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 001-12307

ZIONS BANCORPORATION

(Exact name of Registrant as specified in its charter)

UTAH	87-0227400
(State or other jurisdiction of incorporation or organization)	(Internal Revenue Service Employer Identification Number)

One South Main, 15 <sup>th</sup> Floor	84133
Salt Lake City, Utah	

(Address of principal executive offices)	(Zip Code)
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Registrant's telephone number, including area code: (801) 844-7637

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, without par value	The NASDAQ Stock Market LLC
Warrants to Purchase Common Stock (expiring May 22, 2020)	The NASDAQ Stock Market LLC
Warrants to Purchase Common Stock (expiring November 14, 2018)	The NASDAQ Stock Market LLC
Depository Shares each representing a 1/40 <sup>th</sup> ownership interest in a share of Series A Floating-Rate Non-Cumulative Perpetual Preferred Stock	New York Stock Exchange
Depository Shares each representing a 1/40 <sup>th</sup> ownership interest in a share of Series F 7.9% Non-Cumulative Perpetual Preferred Stock	New York Stock Exchange
Depository Shares each representing a 1/40 <sup>th</sup> ownership interest in a share of Series G Fixed/Floating Rate Non-Cumulative Perpetual Preferred Stock	New York Stock Exchange
Depository Shares each representing a 1/40 <sup>th</sup> ownership interest in a share of Series H Fixed-Rate Non-Cumulative Perpetual Preferred Stock	New York Stock Exchange
Convertible 6% Subordinated Notes due September 15, 2015	New York Stock Exchange
6.95% Fixed-to-Floating Rate Subordinated Notes due September 15, 2028	New York Stock Exchange

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

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

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

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

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

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

Aggregate Market Value of Common Stock Held by Non-affiliates at June 30, 2014	\$5,309,399,779
Number of Common Shares Outstanding at February 18, 2015	203,193,271 shares

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

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PART I

FORWARD-LOOKING INFORMATION

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

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

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

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

the Company’s ability to successfully execute its business plans, manage its risks, and achieve its objectives; changes in local, national and international political and economic conditions, including without limitation the political and economic effects of the recent economic crisis, delay of recovery from that crisis, economic 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 rates of business formation and growth, commercial and residential real estate development, 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;

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

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

## AVAILABILITY OF INFORMATION

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

## GLOSSARY OF ACRONYMS

ABS	Asset-Backed Security	CFPB	Consumer Financial Protection Bureau
ACL	Allowance for Credit Losses	CLTV	Combined Loan-to-Value Ratio
AFS	Available-for-Sale	CMC	Capital Management Committee
ALCO	Asset/Liability Committee	COSO	Committee of Sponsoring Organizations of the Treadway Commission
ALLL	Allowance for Loan and Lease Losses	CRA	Community Reinvestment Act
Amegy	Amegy Corporation	CRE	Commercial Real Estate
AOCI	Accumulated Other Comprehensive Income	CSV	Cash Surrender Value
ARM	Adjustable Rate Mortgage	DB	Deutsche Bank AG
ASC	Accounting Standards Codification	DBRS	Dominion Bond Rating Service
ASU	Accounting Standards Update	DDA	Demand Deposit Account
ATM	Automated Teller Machine	DFAST	Dodd-Frank Annual Stress Test
BCBS	Basel Committee on Banking Supervision	Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
BCF	Beneficial Conversion Feature	DTA	Deferred Tax Asset
BHC Act	Bank Holding Company Act	EITF	Emerging Issues Task Force
bps	basis points	ERMC	Enterprise Risk Management Committee
BSA	Bank Secrecy Act	EVE	Economic Value of Equity
CB&T	California Bank & Trust	FAMC	Federal Agricultural Mortgage Corporation, or "Farmer Mac"
CCAR	Comprehensive Capital Analysis and Review	FASB	Financial Accounting Standards Board
CDO	Collateralized Debt Obligation	FDIC	Federal Deposit Insurance Corporation
CDR	Constant Default Rate	FDICIA	Federal Deposit Insurance Corporation Improvement Act
CET1	Common Equity Tier 1 (Basel III)	FHLB	Federal Home Loan Bank



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FHLMC	Federal Home Loan Mortgage Corporation, or “Freddie Mac”	OTTI	Other-Than-Temporary Impairment
FINRA	Financial Industry Regulatory Authority	Parent	Zions Bancorporation
FNMA	Federal National Mortgage Association, or “Fannie Mae”	PCAOB	Public Company Accounting Oversight Board
FRB	Federal Reserve Board	PCI	Purchased Credit-Impaired
FTE	Full-time Equivalent	PD	Probability of Default
GAAP	Generally Accepted Accounting Principles	PEI	Private Equity Investment
GDP	Gross Domestic Product	PIK	Payment in Kind
GLB Act	Gramm-Leach-Bliley Act	REIT	Real Estate Investment Trust
HECL	Home Equity Credit Line	RSU	Restricted Stock Unit
HQLA	High Quality Liquid Assets	RULC	Reserve for Unfunded Lending Commitments
HTM	Held-to-Maturity	SBA	Small Business Administration
IFR	Interim Final Rule	SBIC	Small Business Investment Company
IFRS	International Financial Reporting Standards	SEC	Securities and Exchange Commission
LCR	Liquidity Coverage Ratio	SIFI	Systemically Important Financial Institution
LGD	Loss Given Default	SOC	Securitization Oversight Committee
LIBOR	London Interbank Offered Rate	SSU	Salary Stock Unit
LIHTC	Low-Income Housing Tax Credit	TARP	Troubled Asset Relief Program
Lockhart	Lockhart Funding LLC	TCBO	The Commerce Bank of Oregon
MD&A	Management’s Discussion and Analysis	TCBW	The Commerce Bank of Washington
NASDAQ	National Association of Securities Dealers Automated Quotations	TDR	Troubled Debt Restructuring
NAV	Net Asset Value	TRACE	Trade Reporting and Compliance Engine
NBAZ	National Bank of Arizona	TRS	Total Return Swap
NIM	Net Interest Margin	Vectra	Vectra Bank Colorado
NRSRO	Nationally Recognized Statistical Rating Organization	VIE	Variable Interest Entity
NSB	Nevada State Bank	VR	Volcker Rule
OCC	Office of the Comptroller of the Currency	T1C	Tier 1 Common (Basel I)
OCI	Other Comprehensive Income	Zions Bank	Zions First National Bank
OREO	Other Real Estate Owned	ZMFU	Zions Municipal Funding
OTC	Over-the-Counter	ZMSC	Zions Management Services Company

## ITEM 1. BUSINESS

## DESCRIPTION OF BUSINESS

Zions Bancorporation (“the Parent”) is a financial holding company organized under the laws of the State of Utah in 1955, and registered under the BHC Act, as amended. The Parent and its subsidiaries (collectively “the Company”) own and operate eight commercial banks with a total of 460 domestic branches at year-end 2014. The Company provides a full range of banking and related services through its banking and other subsidiaries, primarily in Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah, Washington, and Wyoming. Full-time equivalent employees totaled 10,462 at December 31, 2014. For further information about the Company’s industry segments, see “Business Segment Results” on page 46 in MD&A and Note 21 of the Notes to Consolidated Financial Statements. For information about the Company’s foreign operations, see “Foreign Exposure and Operations” on page 60 in MD&A. The “Executive Summary” on page 24 in MD&A provides further information about the Company.

## PRODUCTS AND SERVICES

The Company focuses on providing community banking services by continuously strengthening its core business lines of 1) small and medium-sized business and corporate banking; 2) commercial and residential development, construction and term lending; 3) retail banking; 4) treasury cash management and related products and services; 5)

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residential mortgage servicing and lending; 6) trust and wealth management; 7) limited capital markets activities, including municipal finance advisory and underwriting; and 8) investment activities. It operates eight different banks in eleven Western and Southwestern states with each bank operating under a different name and each having its own board of directors, chief executive officer, and management team. The banks provide a wide variety of commercial and retail banking and mortgage lending products and services. They also provide a wide range of personal banking services to individuals, including home mortgages, bankcard, other installment loans, home equity lines of credit, checking accounts, savings accounts, certificates of deposit of various types and maturities, trust services, safe deposit facilities, direct deposit, and Internet and mobile banking. In addition, certain subsidiary banks provide services to key market segments through their Women's Financial, Private Client Services, and Executive Banking Groups. We also offer wealth management services through various subsidiaries, including Contango Capital Advisors and Zions Trust Company, and online and traditional brokerage services through Zions Direct and Amegy Investments.

In addition to these core businesses, the Company has built specialized lines of business in capital markets and public finance, and is a leader in SBA lending. Through its subsidiary banks, the Company is one of the nation's largest providers of SBA 7(a) and SBA 504 financing to small businesses. The Company owns an equity interest in Farmer Mac and is its top originator of secondary market agricultural real estate mortgage loans. The Company provides finance advisory and corporate trust services for municipalities. The Company uses its trust powers to provide trust services to individuals in its wealth management business and to provide bond transfer, stock transfer, and escrow services in its corporate trust business, both within and outside of its footprint.

## COMPETITION

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

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

## SUPERVISION AND REGULATION

The banking and financial services business in which we engage is highly regulated. Such regulation is intended, among other things, to improve the stability of banking and financial companies and to protect the interests of customers, including both loan customers and depositors, and taxpayers. These regulations are not, however, generally intended to protect the interests of our shareholders or creditors, and in fact may have the consequence of reducing returns to our shareholders. This regulatory framework has been materially revised and expanded since the 2008-2009 financial crisis and recession. In particular, the Dodd-Frank Act and regulations promulgated pursuant to it have given financial regulators expanded powers over nearly every aspect of the Company's business. These include, among other things, new, higher regulatory capital requirements; regulation of dividends and other forms of capital distributions to shareholders through annual stress testing and capital planning processes; heightened liquidity and liquidity stress testing requirements, which include specific definitions of the types of investment securities that qualify as "high quality liquid assets" and which effectively limit the portion of the Company's balance sheet that can be used to meet the credit needs of its customers; specific limitations on mortgage lending products and practices; specific limits on certain consumer payment fees; and subjecting compensation practices to specific regulatory oversight and restrictions. Individually and collectively, these additional regulations have imposed and will continue to impose higher costs on the Company, and have reduced and may continue to reduce returns earned by shareholders. The Dodd-Frank Act provides for further regulations, the specifics of which are still not known and the impact of such regulatory changes cannot be presently determined. The Company is committed



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to both satisfying heightened regulatory expectations and providing attractive shareholder returns. However, given the still changing regulatory environment, the results of these efforts cannot yet be known.

Described below are the material elements of some selected laws and regulations applicable to the Company. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. Changes in applicable laws or regulations, and in their application by regulatory agencies, cannot be predicted, but they may have a material effect on the business and results of the Company. The Parent is a bank holding company and a financial holding company as provided by the BHC Act, as modified by the GLB Act and the Dodd-Frank Act. These and other federal statutes provide the regulatory framework for bank holding companies and financial holding companies, which have as their umbrella regulator the FRB. The supervision of the separately regulated subsidiaries of a bank holding company is conducted by each subsidiary's primary functional regulator and the laws and regulations administered by those regulators. The GLB Act allows our subsidiary banks to engage in certain financial activities through financial subsidiaries. To qualify for and maintain status as a financial holding company, or to do business through a financial subsidiary, the Parent and its subsidiary banks must satisfy certain ongoing criteria. The Company currently engages in only limited activities for which financial holding company status is required.

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

### The Dodd-Frank Act

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

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

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

Regulations promulgated under the Dodd-Frank Act will require us to maintain greater levels of capital and liquid assets than was generally the case before the crisis and will limit the forms of capital that we will be able to rely upon for regulatory purposes. For example, provisions of the Dodd-Frank Act require us to transition trust preferred securities from Tier 1 capital to Tier 2 capital over a two-year period that begins January 1, 2015. In 2015, 75% of trust preferred securities transition to Tier 2 Capital from Tier 1 and the remaining 25% in 2016. In addition, in its supervisory role with respect to our stress testing and capital planning, our ability to deliver returns to our shareholders through dividends and stock repurchases is subject to prior non-objection by the FRB. The stress



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testing and capital plan process also could substantially reduce our flexibility to respond to market developments and opportunities in such areas as capital raising and acquisitions.

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

• The assessment base for federal deposit insurance was changed to consolidated assets less tangible capital instead of the amount of insured deposits.

• The federal prohibition on the payment of interest on business transaction accounts was repealed.

• The FRB was authorized to issue regulations governing debit card interchange fees.

The Dodd-Frank Act also created the CFPB, which is responsible for promulgating regulations designed to protect consumers' financial interests and examining large financial institutions for compliance with, and enforcing, those regulations. The Dodd-Frank Act adds prohibitions on unfair, deceptive or abusive acts and practices to the scope of consumer protection regulations overseen and enforced by the CFPB. The CFPB also enacted new regulations, that became fully effective January 10, 2014, which require significant changes to residential mortgage origination; these changes include the definition of a "qualified mortgage" and the requirement regarding how a borrower's "ability to repay" must be determined. The Dodd-Frank Act subjected national banks to the possibility of further regulation by restricting the preemption of state laws by federal laws, which had enabled national banks and their subsidiaries to comply with federal regulatory requirements without complying with various state laws. In addition, the Dodd-Frank Act gives greater power to state attorneys general to pursue legal actions against banking organizations for violations of federal law.

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

The Company is subject to the provisions of the Volcker Rule, issued pursuant to the Dodd-Frank Act. As of December 31, 2014, the Company had divested all securities that were not in compliance with the Volcker Rule, and had sold all but \$41 million (amortized cost) of non-compliant investments. Such investments include \$25 million of potential capital calls, which the Company expects to fund, as allowed by the Volcker Rule, if and as the capital calls are made until the investments are sold. These investments are in private equity funds, and are referred to in this document as private equity investments ("PEIs"). The Company continues to pursue the disposition of all non-compliant PEIs. The FRB has granted a blanket extension of the Volcker Rule compliance date to July 21, 2016.

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

As discussed further throughout this section, many aspects of the Dodd-Frank Act are subject to further rulemaking and will take effect over several years making it difficult to anticipate the overall financial impact on the Company or the industry.

### Capital Standards – Basel Framework

The capital regulations issued by the FRB and other U. S. regulators pursuant to the 1988 capital accord ("Basel I") of the BCBS were still in effect as of December 31, 2014. However, in 2013, the FRB, FDIC, and OCC issued final rules (the "Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework, commonly referred to as Basel III, for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The



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Basel III Capital Rules substantially revise and restate Basel I rules regarding the risk-based capital requirements applicable to bank holding companies and depository institutions, including the Company. The Basel III Capital Rules became effective for the Company on January 1, 2015 (subject to phase-in periods for certain of their components). The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. The Basel III Capital Rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach, which was derived from Basel I capital accords of the Basel Committee, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee's 2004 Basel II capital accords. The Basel III Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules.

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

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

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

When fully phased in on January 1, 2019, the Basel III Capital Rules will also require the Company and its subsidiary banks to maintain a 2.5% "capital conservation buffer," designed to absorb losses during periods of economic stress, composed entirely of CET1, on top of the minimum risk-weighted asset ratios, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7.0%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall. The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

The Basel III Capital Rules also prescribe a standardized approach for calculating risk-weighted assets that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. Government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. In addition, the Basel III Capital Rules provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increase the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income, and significant investments in common equity issued by nonconsolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. The Company's preliminary analysis indicates that application of this part of the rule should not result in any deductions from CET1. Also, primarily as a result of the large amount of CDO sales completed in 2014, the Company no longer expects the application of the Basel III corresponding deduction rules to have a material effect on its Basel III regulatory capital ratios, either as phased in or on a fully phased in basis.

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Under current capital standards, the effects of AOCI items included in capital are 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,” which will be reported to the FRB on the Company’s first quarter 2015 FRY-9 report.

The Basel III Capital Rules require that trust preferred securities be phased out from Tier 1 capital by the end of 2015. However, for a banking organization such as the Company, that has greater than \$15 billion in total consolidated assets, but is not an “advanced approaches banking organization,” the Basel III Capital Rules permit permanent inclusion of trust preferred securities issued prior to May 19, 2010 in Tier 2 capital regardless of whether they would otherwise meet the qualifications for Tier 2 capital. As of December 31, 2014, the Company had outstanding \$163 million of trust preferred securities that qualified for this permanent inclusion in Tier 2 capital.

Basel III also requires additional disclosures to be made that are commonly referred to as “Pillar 3” disclosures. These disclosures require the Company to make prescribed regulatory disclosures on a quarterly basis regarding its capital structure adequacy and risk-weighted assets. The disclosure requirements will be applicable beginning with the Company’s financial results for the first quarter of 2015. The Pillar 3 disclosures will be made publicly available on the Company’s website.

The Company believes that, as of December 31, 2014, the Company and its subsidiary banks would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were currently effective.

### Stress Testing, Prudential Standards, and Early Remediation

As a bank holding company with assets greater than \$50 billion, the Company is required by the Dodd-Frank Act to participate in annual stress tests known as the Dodd-Frank Annual Stress Test (“DFAST”) and Federal Reserve’s Comprehensive Capital Analysis and Review (“CCAR”). The Company timely submitted its 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 February 17, 2014, the Federal Reserve published final rules to implement Section 165, Enhanced Supervision and Prudential Standards for Nonbank Financial Companies Supervised by the Board of Governors and Certain Bank Holding Companies, of the Dodd-Frank Act. The Company believes that it is in compliance with these rules.

### Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act (“FDICIA”), requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios. Pursuant to FDICIA, the FDIC promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Under the prompt corrective action provisions of FDICIA, an insured depository institution generally will be classified as well-capitalized if it has a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a Tier 1 leverage ratio of at least 5%, and an insured depository institution generally will be classified as undercapitalized if its total risk-based capital is less than 8% or its Tier 1 risk-based capital or leverage ratio is less than 4%. An institution that, based upon its capital levels, is classified as “well-capitalized,” “adequately capitalized,” or “undercapitalized,” may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. Under the





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fully phased-in Basel III Capital Rules, (i) a new CET1 ratio requirement will be introduced at every level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) the minimum Tier 1 capital ratio requirement for each category will be increased, with the minimum Tier 1 capital ratio for well-capitalized status being 8%; and (iii) the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be well-capitalized will be eliminated. At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits. Furthermore, if a bank is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the federal bank regulator, and the holding company must guarantee the performance of that plan.

**Other Regulations**

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

Requirements that the Parent serve as a source of strength for its subsidiary banks. The FRB has a policy that a bank holding company is expected to act as a source of financial and managerial strength to each of its subsidiary banks and, under appropriate circumstances, to commit resources to support each subsidiary bank. The Dodd-Frank Act codifies this policy as a statutory requirement.

Limitations on dividends payable by subsidiaries. A significant portion of the Parent's cash, which is used to pay dividends on our common and preferred stock and to pay principal and interest on our debt obligations, is derived from dividends paid to the Parent by its subsidiary banks. These dividends are subject to various legal and regulatory restrictions. See Note 18 of the Notes to Consolidated Financial Statements.

Limitations on dividends payable to shareholders. The Parent's ability to pay dividends on both its common and preferred stock may be subject to regulatory restrictions, including the requirement that they be included in a stress test and capital plan to which the FRB has not objected. See discussion under "Liquidity Management Actions" on page 81.

Cross-guarantee requirements. All of the Parent's subsidiary banks are insured by the FDIC. Each commonly controlled FDIC-insured bank can be held liable for any losses incurred, or reasonably expected to be incurred, by the FDIC due to another commonly controlled FDIC-insured bank being placed into receivership, and for any assistance provided by the FDIC to another commonly controlled FDIC-insured bank that is subject to certain conditions indicating that receivership is likely to occur in the absence of regulatory assistance.

Safety and soundness requirements. Federal and state laws require that our banks be operated in a safe and sound manner. We are subject to additional safety and soundness standards prescribed in the Federal Deposit Insurance Corporate Improvement Act of 1991, including standards related to internal controls, information systems, internal audit, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, as well as other operational and management standards deemed appropriate by the federal banking agencies. The safety and soundness requirements give bank regulatory agencies significant latitude in their supervisory authority over us.

Requirements for approval of acquisitions and activities and restrictions on other activities. Prior approval of the FRB is required under the BHC Act for a financial holding company to acquire or hold more than a 5% voting interest in any bank, to acquire substantially all the assets of a bank or to merge with another financial or bank holding company. The BHC Act also requires approval for certain nonbanking acquisitions, restricts the activities of bank holding companies that are not financial holding companies to banking, managing or controlling banks and other activities that the FRB has determined to be so closely related to banking as to be a proper incident thereto, and restricts the nonbanking activities of a financial holding company to those that are permitted for financial holding companies or that have been determined by the FRB to be financial in nature, incidental to financial activities, or complementary to a financial activity. Laws and regulations governing national and state-chartered banks contain similar provisions concerning acquisitions and activities.

Limitations on the amount of loans to a borrower and its affiliates.



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Limitations on transactions with affiliates. The Dodd-Frank Act significantly expanded the coverage and scope of the limitations on affiliate transactions within a banking organization.

Restrictions on the nature and amount of any investments and ability to underwrite certain securities.

Requirements for opening of branches and the acquisition of other financial entities.

Fair lending and truth in lending requirements to provide equal access to credit and to protect consumers in credit transactions.

Broker-dealer and investment advisory regulations. Certain of our subsidiaries are broker-dealers that engage in securities underwriting and other broker-dealer activities. These companies are registered with the SEC and are members of FINRA. Certain other subsidiaries are registered investment advisers under the Investment Advisers Act of 1940, as amended, and as such are supervised by the SEC. They are also subject to various U.S. federal and state laws and regulations. These laws and regulations generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the carrying on of business for failure to comply with such laws.

Provisions of the GLB Act and other federal and state laws dealing with privacy for nonpublic personal information of individual customers.

CRA requirements. The CRA requires banks to help serve the credit needs in their communities, including providing credit to low and moderate income individuals. If the Company or its subsidiaries fail to adequately serve their communities, penalties may be imposed including denials of applications to add branches, relocate, add subsidiaries and affiliates, and merge with or purchase other financial institutions.

Anti-money laundering regulations. The BSA, Title III of the Uniting and Strengthening of America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“USA Patriot Act”), and other federal laws require financial institutions to assist U.S. Government agencies in detecting and preventing money laundering and other illegal acts by maintaining policies, procedures and controls designed to detect and report money laundering, terrorist financing, and other suspicious activity.

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

The Company is subject to the Sarbanes-Oxley Act of 2002, the Dodd-Frank Act, and other federal and state laws and regulations which address, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. NASDAQ has also adopted corporate governance rules, which are intended to allow shareholders and investors to more easily and efficiently monitor the performance of companies and their directors.

The Board of Directors of the Parent has implemented a comprehensive system of corporate governance practices. This system includes policies and guidelines such as Corporate Governance Guidelines, a Code of Business Conduct and Ethics for Employees, a Directors Code of Conduct, a Related Party Transaction Policy, Stock Ownership and Retention Guidelines, a Compensation Clawback Policy, an insider trading policy including provisions prohibiting hedging and placing some restrictions on the pledging of company stock by insiders, and charters for the Audit, Risk Oversight, Compensation, and Nominating and Corporate Governance Committees. More information on the Company’s corporate governance practices is available on the Company’s website at [www.zionsbancorporation.com](http://www.zionsbancorporation.com). (The Company’s website is not part of this Annual Report on Form 10-K).

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

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



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GOVERNMENT MONETARY POLICIES

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

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

ITEM 1A. RISK FACTORS

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

The following list describes several risk factors which are significant to the Company, including but not limited to: Credit quality has adversely affected us and may adversely affect us in the future.

Credit risk is one of our most significant risks. If the strength of the U.S. economy in general and the strength of the local economies in which we and our subsidiary banks conduct operations declined, this could result in, among other things, deterioration in credit quality and/or reduced demand for credit, including a resultant adverse effect on the income from our loan portfolio, an increase in charge-offs and an increase in the allowance for loan and lease losses. We have concentrations of risk in our loan portfolio, including loans secured by real estate and energy-related lending, which may have unique risk characteristics that may adversely affect our results.

Concentration or counterparty risk could adversely affect the Company. Concentration risk across our loan and investment portfolios could pose significant additional credit risk to the Company due to exposures which perform in a similar fashion. Counterparty risk could also pose additional credit risk.

Most of our subsidiary banks engage in both commercial term and land acquisition, development and construction lending, primarily in our Western states footprint, and the Company as a whole has relatively larger concentrations of such lending than many peer institutions. In addition, we have a concentration in energy-related lending, primarily in our Amegy Bank subsidiary. Both commercial real estate and energy lending are subject to specific risks, including volatility and potential significant and prolonged declines in collateral values and activity levels. In addition, our real estate lending is concentrated in the Western states, and values there may behave differently than in other parts of the United States. We may have other unidentified concentrated or correlated risks in our loan portfolio.

Failure to effectively manage our interest rate risk and prolonged periods of low interest rates could adversely affect us.

Net interest income is the largest component of the Company's revenue. The management of interest rate risk for the Company and its subsidiary banks is centralized and overseen by an Asset Liability Management Committee appointed by the Company's Board of Directors. Failure to effectively manage our interest rate risk could adversely affect us. Factors beyond the Company's control can significantly influence the interest rate environment and increase the Company's risk. These factors include competitive pricing pressures for our loans and deposits, adverse shifts in the mix of deposits and other funding sources, and volatile market interest resulting from general economic conditions and the policies of governmental and regulatory agencies, in particular the FRB.

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The Company remains in an “asset sensitive” interest rate risk position, which means that net interest income would be expected to increase if interest rates increase, and to decline if interest rates decrease. Most recently, the FRB has indicated that it expects to be “patient” with respect to the timing and amount of any rate increases.

Our estimates of our interest rate risk position for noninterest-bearing demand deposits are dependent on assumptions for which there is little historical experience, and the actual behavior of those deposits in a changing interest rate environment may differ materially from our estimates, which could materially affect our results of operations.

We have experienced a low interest rate environment for the past several years. Our views with respect to, among other things, the degree to which we are “asset-sensitive,” including our interest rate risk position for noninterest-bearing demand deposits, are dependent on modeled projections that rely on assumptions regarding changes in balances of such deposits in a changing interest rate environment. Because there is no modern precedent for the prolonged, extremely low interest rate environment that has prevailed for the last several years, there is little historical experience upon which to base such assumptions. If interest rates begin to increase, our assumptions regarding changes in balances of noninterest-bearing demand deposits and regarding the speed and degree to which other deposits are repriced may prove to be incorrect, and business decisions made in reliance on our modeled projections and underlying assumptions could prove to be unsuccessful. Because noninterest-bearing demand deposits are a significant portion of our deposit base, errors in our modeled projections and the underlying assumptions could materially affect our results of operations.

We have been and could continue to be negatively affected by adverse economic conditions.

The United States and many other countries recently faced a severe economic crisis, including a major recession from which the recovery has been slow. These adverse economic conditions have negatively affected the Company’s assets, including its loans and securities portfolios, capital levels, results of operations, and financial condition. In response to the economic crisis, the United States and other governments established a variety of programs and policies designed to mitigate the effects of the crisis. While these programs and policies may have had a stabilizing effect in the United States following the severe financial crisis that occurred in the second half of 2008, troubling economic conditions continue to exist in the United States and globally. Most of these programs have expired, however, the FRB and central banks in other countries continue to pursue monetary policies that have resulted in an unusual period of very low interest rates. However, the full impact of these policies on, among other things, general economic activity and asset values that serve as collateral for loans extended by the Company, for example, real estate values, how long these policies may persist, and the impacts of withdrawing those policies, is unclear and may not be known for some time. It is possible that economic conditions may again become more severe or that weak economic conditions may continue for a substantial period of time. Economic and fiscal conditions in the United States and other countries may directly or indirectly adversely impact economic and market conditions faced by the Company and its customers. Any increase in the severity or duration of adverse economic conditions, including a recession or continued weak economic recovery, would adversely affect the Company.

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

The Company and its subsidiary banks must maintain certain risk-based and leverage capital ratios as required by their banking regulators, which can change depending upon general economic conditions, hypothetical future adverse economic scenarios, and the particular conditions, risk profiles and growth plans of those entities. Compliance with capital requirements may limit the Company’s ability to expand and has required, and may require, the Company to raise additional capital, or additional capital investment from the Parent or its subsidiaries. These uncertainties and risks, including those created by legislative and regulatory uncertainties, may increase the Company’s cost of capital and other financing costs.

Our business is highly correlated to local economic conditions in a specific geographic region of the United States. As a regional bank holding company, the Company provides a full range of banking and related services through its banking and other subsidiaries in Arizona, California, Colorado, Idaho, Nevada, New Mexico,





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Oregon, Texas, Utah, Washington, and Wyoming. Approximately 82% of the Company's total net interest income for the year ended December 31, 2014 and 77% of total assets as of December 31, 2014 relate to the subsidiary banks in Utah, Texas and California. As a result of this geographic concentration, our financial results depend largely upon economic conditions in these market areas. Accordingly, adverse economic conditions affecting these three states in particular could significantly affect our consolidated operations and financial results. For example, our credit risk could be elevated to the extent that our lending practices in these three states focus on borrowers or groups of borrowers with similar economic characteristics, which are similarly affected by the same adverse economic events. As of December 31, 2014, loan balances at our subsidiary banks in Utah, Texas and California comprised 82% of the Company's commercial lending portfolio, 75% of the commercial real estate lending portfolio, and 69% of the consumer lending portfolio. Loans originated by these banks are primarily to borrowers in their respective states, with the exception of the National Real Estate group owner-occupied loan portfolio held by our Utah subsidiary bank. Catastrophic events including, but not limited to, hurricanes, tornadoes, earthquakes, fires, floods, and prolonged drought, may adversely affect the general economy, financial and capital markets, specific industries, and the Company.

The Company has significant operations and a significant customer base in Utah, Texas, California and other regions where natural and other disasters may occur. These regions are known for being vulnerable to natural disasters and other risks, such as hurricanes, tornadoes, earthquakes, fires, floods, and prolonged drought. These types of natural catastrophic events at times have disrupted the local economy, the Company's business and customers, and have posed physical risks to the Company's property. In addition, catastrophic events occurring in other regions of the world may have an impact on the Company's customers and in turn on the Company. A significant catastrophic event could materially adversely affect the Company's operating results.

Problems encountered by other financial institutions could adversely affect financial markets generally and have indirect adverse effects on us.

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we interact on a daily basis, and therefore could adversely affect us.

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

The Dodd-Frank Act imposes significant limitations on our business activities and subjects us to increased regulation and additional costs.

The Dodd-Frank Act has material implications for the Company and the entire financial services industry. The Dodd-Frank Act places significant additional regulatory oversight and requirements on financial institutions, particularly those with more than \$50 billion of assets, including the Company. In addition, among other things, the Dodd-Frank Act:

affects the levels of capital and liquidity with which the Company must operate and how it plans capital and liquidity levels (including a phased-in elimination of the Company's existing trust preferred securities as Tier 1 capital);

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- subjects the Company to new and/or higher fees paid to various regulatory entities, including but not limited to deposit insurance fees to the FDIC;
- impacts the Company's ability to invest in certain types of entities or engage in certain activities;
- impacts a number of the Company's business strategies;
- requires us to incur the cost of developing substantial heightened risk management policies and infrastructure;
- regulates the pricing of certain of our products and services and restricts the revenue that the Company generates from certain businesses;
- subjects the Company to new capital planning actions, including stress testing or similar actions and timing expectations for capital-raising;
- subjects the Company to supervision by the CFPB, with very broad rule-making and enforcement authorities;
- grants authority to state agencies to enforce state and federal laws against national banks;
- subjects the Company to new and different litigation and regulatory enforcement risks; and
- limits the manner in which compensation is paid to executive officers and employees generally.

The Company and the entire financial services industry have incurred and will continue to incur substantial personnel, systems, consulting, and other costs in order to comply with new regulations promulgated under the Dodd-Frank Act, particularly with respect to stress testing and risk management. Because the responsible agencies are still in the process of proposing and finalizing many of the regulations required under the Dodd-Frank Act, the full impact of this legislation on the Company and the financial services industries, business strategies, and financial performance cannot be known at this time, and may not be known for some time. Individually and collectively, regulations adopted under the Dodd-Frank Act may materially adversely affect the Company's and the financial services industry's business, financial condition (including the Company's ability to compete effectively with less regulated financial services providers), and results of operations.

As a regulated entity, we are subject to capital and liquidity requirements that may limit our operations and potential growth.

We are a bank holding company and a financial holding company. As such, we and our subsidiary banks are subject to the comprehensive, consolidated supervision and regulation of the FRB, the OCC (in the case of our national subsidiary banks) and the FDIC, including risk-based and leverage capital ratio requirements, and Basel III liquidity requirements. Capital needs may rise above normal levels when we experience deteriorating earnings and credit quality, and our banking regulators may increase our capital requirements based on general economic conditions and our particular condition, risk profile and growth plans. In addition, we may be required to increase our capital levels even in the absence of actual adverse economic conditions or forecasts as a result of stress testing and capital planning based on hypothetical future adverse economic scenarios. Compliance with the capital requirements, including leverage ratios, may limit operations that require the intensive use of capital and could adversely affect our ability to expand or maintain present business levels. For a summary of recently announced capital rules, see "Capital Standards – Basel Framework" in "Supervision and Regulation" on page 8 of MD&A in this Form 10-K.

Stress testing and capital management under the Dodd-Frank Act may limit our ability to increase dividends, repurchase shares of our stock, and access the capital markets.

Under the CCAR, we are required to submit to the Federal Reserve each year our capital plan for the applicable planning horizon, along with the results of required stress tests. Each annual capital plan will, among other things, specify our planned actions with respect to dividends, redemptions, repurchases, capital raising, and similar matters and will be subject to the objection or non-objection by the Federal Reserve. Moreover, the CCAR process requires us to analyze the pro forma impact on our financial condition of various hypothetical future adverse economic scenarios selected by us or the Federal Reserve. We must maintain or raise capital sufficient to meet our risk management and regulatory expectations under such hypothetical scenarios. Similarly, Dodd-Frank Act Stress Tests ("DFAST") are stress tests run by the Federal Reserve using its

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proprietary models to analyze the Company's stressed capital position. In order to receive a "non-objection" from the Federal Reserve to its capital plan, it must pass both the Federal Reserve's quantitatively modeled stress capital and a qualitative examination of its CCAR submission and capital plan. As required by the Dodd-Frank Act we also submit stress tests to the OCC (for Amegy and Zions) and FDIC (for CB&T) for our subsidiary banks with assets in excess of \$10 billion. The severity of the hypothetical scenarios devised by the FRB and other bank regulators and employed in these stress tests is undefined by law or regulation, and is thus subject solely to the discretion of the regulators. The stress testing and capital planning processes may, among other things, require us to increase our capital levels, limit our dividends or other capital distributions to shareholders, modify our business strategies, or decrease our exposure to various asset classes.

Under stress testing and capital management standards implemented by bank regulatory agencies under the Dodd-Frank Act, we may declare dividends, repurchase common stock, redeem preferred stock and debt, access capital markets for certain types of capital, make acquisitions, and enter into similar transactions only if included in a capital plan to which the FRB has not objected. Any similar transactions not contemplated in our annual capital plan, other than those with a de minimus impact on actual or projected capital, may require a new stress test and capital plan, which is subject to FRB non-objection. These requirements may significantly limit our ability to respond to and take advantage of market developments.

We increasingly use models in the management of the Company, and in particular in the required stress testing and capital plan. There is risk that these models are incorrect or inaccurate in various ways, which can cause us to make non-optimal decisions, and this risk causes the Company to hold additional capital as a buffer against that risk.

We attempt to carefully develop, document, back test, and validate the models used in the management of the Company, including, for example, models used in the management of interest rate and liquidity risk, and those used in projecting stress losses in various segments of our credit and securities portfolios, and projecting net revenue under stress. Models are inherently imperfect for a number of reasons, however, and cannot perfectly predict outcomes. Management decisions based in part on such models, therefore, can be suboptimal. In addition, in determining the Company's capital needs under stress testing, we attempt to specifically quantify the amounts by which model results could be incorrect, and we hold material additional amounts of capital as a buffer against this "model risk."

New liquidity regulations, including regulations establishing a minimum Liquidity Coverage Ratio ("LCR") and requiring monthly liquidity stress testing applicable to the Company may impact profitability.

The Company is subject to new liquidity regulations, including a requirement that it conduct monthly liquidity stress tests starting in January 2015, and that subject it to a new requirement that it maintain a modified LCR of at least 100% effective January 1, 2016. Current liquidity stress tests indicate that the Company is in compliance with the modified LCR requirement. Such stress testing is subject to ongoing model and assumptions changes which could affect results.

In order to meet the requirements of these new regulations, the Company expects to hold a higher portion of its assets in High Quality Liquid Assets ("HQLA") and a lower portion of its assets in loans than was generally the case prior to such regulation. HQLA generally have lower yields than loans of the type made by the Company.

The regulation of incentive compensation under the Dodd-Frank Act may adversely affect our ability to retain our highest performing employees.

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

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Increases in FDIC insurance premiums may adversely affect our earnings.

Our deposits are insured by the FDIC up to legal limits and, accordingly, we are subject to FDIC insurance assessments. During 2008 and 2009, higher levels of bank failures dramatically increased resolution costs of the FDIC and depleted the deposit insurance fund. In addition, the FDIC instituted two temporary programs to further insure customer deposits at FDIC insured banks. These programs, which have since expired, placed additional stress on the deposit insurance fund. In order to maintain a strong funding position and restore reserve ratios of the deposit insurance fund, the FDIC has increased assessment rates of insured institutions. Further, under the Dodd-Frank Act, the assessment base was expanded to include non-deposit liabilities. We generally have only limited ability to control the amount of premiums that we are required to pay the FDIC for insurance. Changes in our required insurance premium payments may adversely impact our earnings.

Other legislative and regulatory actions taken now or in the future may have a significant adverse effect on our operations.

In addition to the Dodd-Frank Act described previously, bank regulatory agencies and international regulatory consultative bodies have proposed or are considering new regulations and requirements, some of which may be imposed without formal promulgation.

There can be no assurance that any or all of these regulatory changes or actions will ultimately be adopted. However, if adopted, some of these proposals could adversely affect the Company by, among other things: impacting after-tax returns earned by financial services firms in general; limiting the Company's ability to grow; increasing taxes or fees on some of the Company's funding or activities; limiting the range of products and services that the Company could offer; and requiring the Company to raise capital at inopportune times.

The ultimate impact of these proposals cannot be predicted as it is unclear which, if any, may be adopted.

We could be adversely affected by accounting, financial reporting, and regulatory and compliance risk.

The Company is exposed to accounting, financial reporting, and regulatory/compliance risk. The Company provides to its customers, invests in, and uses for its own capital, funding, and risk management needs a number of complex financial products and services. Estimates, judgments, and interpretations of complex and changing accounting and regulatory policies are required in order to provide and account for these products and services. Changes in our accounting policies or in accounting standards could materially affect how we report our financial results and conditions. The level of regulatory/compliance oversight has been heightened in recent periods as a result of rapid changes in regulations that affect financial institutions. The administration of some of these regulations and related changes has required the Company to comply before their formal adoption. Identification, interpretation and implementation of complex and changing accounting standards as well as compliance with regulatory requirements therefore pose an ongoing risk.

We could be adversely affected by legal and governmental proceedings.

We are subject to risks associated with legal claims, fines, litigation, and regulatory and other government proceedings. The Company's exposure to these proceedings has increased and may further increase as a result of stresses on customers, counterparties and others arising from the past or current economic environments, new regulations promulgated under recently adopted statutes, the creation of new examination and enforcement bodies, and increasingly aggressive enforcement and legal actions against banking organizations.

The quality and liquidity of our asset-backed investment securities portfolio has adversely affected us and may continue to adversely affect us.

The Company's asset-backed investment securities portfolio includes CDOs collateralized primarily by trust preferred securities issued by bank holding companies. Many factors, some of which are beyond the Company's control, significantly influence the fair value and impairment status of these securities. These factors include, but are not limited to, defaults, deferrals and restructurings by debt issuers, the views of banking regulators, changes in our accounting treatment with respect to these securities, rating agency downgrades of securities, limited market pricing of securities, or market pricing that varies from the Company's current model valuations, and changes in prepayment rates and future interest rates. The occurrence of one or more of these factors could result in additional OTTI charges with respect to our CDO portfolio, which could be material.



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The Company may not be able to utilize the significant deferred tax asset recorded on its balance sheet.

The Company's balance sheet includes a significant deferred tax asset. The largest components of this asset result from additions to our allowance for loan and lease losses for purposes of generally accepted accounting principles in excess of loan losses actually taken for tax purposes and other-than-temporary impairment losses on our securities portfolio that have not yet been realized for tax purposes by selling the securities. Our ability to continue to record this deferred tax asset is dependent on the Company's ability to realize its value through net operating loss carrybacks or future projected earnings. Loss of part or all of this asset would adversely impact tangible capital. In addition, inclusion of this asset in determining regulatory capital is subject to certain limitations. Currently no deferred tax assets are disallowed for regulatory purposes either on a consolidated basis or at any of the Company's subsidiary banks.

We could be adversely affected by failure in our internal controls.

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

Our information systems may experience an interruption or security breach.

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

We are making a significant investment to replace our core loan and deposit systems and to upgrade our accounting systems. The actual duration, cost, expected savings, and other factors to implement these initiatives may vary significantly from our estimates, which could materially affect the Company, including its results of operations.

During 2013, our Board of Directors approved a significant investment by us to replace our loan and deposit systems and to upgrade our accounting systems. The new integrated system for most of our loans and deposits is expected to employ technology that is a significant improvement over our current systems. These initiatives will be completed in phases to allow for appropriate testing and implementation so as to minimize time delays and cost overruns. However, these initiatives are in the early stages and by their very nature, projections of duration, cost, expected savings, and related items are subject to change and significant variability.

We may encounter significant adverse developments in the completion and implementation of these initiatives. These may include significant time delays, cost overruns, and other adverse developments that could result in disruptions to our systems and adversely impact our customers.

We have plans, policies and procedures designed to prevent or limit the negative effect of these adverse developments. However, there can be no assurance that any such adverse developments will not occur or, if they do occur, that they will be adequately remediated. The occurrence of any adverse development could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could materially affect the Company, including its results of operations in any given reporting period.

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Our results of operations depend upon the performance of our subsidiaries.

We are a holding company that conducts substantially all of our operations through our banking and other subsidiaries. The Parent receives substantially all of its revenues from dividends from its subsidiaries. These dividends are a principal source of funds to pay dividends on our common and preferred stock and interest and principal on our debt. We and certain of our subsidiaries experienced periods of unprofitability or reduced profitability during the recent severe recession. The ability of the Company and its subsidiary banks to pay dividends is restricted by regulatory requirements, including profitability and the need to maintain required levels of capital. Lack of profitability or reduced profitability exposes us to the risk that regulators could restrict the ability of our subsidiary banks to pay dividends. It also increases the risk that the Company may have to establish a “valuation allowance” against its net deferred tax asset or have that asset disallowed for regulatory capital purposes.

The ability of our subsidiary banks to pay dividends or make other payments to us is also limited by their obligations to maintain sufficient capital and by other general regulatory restrictions on their dividends. If they do not satisfy these regulatory requirements, we may be unable to pay interest on our indebtedness. The OCC, the primary regulator for certain of our subsidiary banks, has issued policy statements generally requiring insured banks only to pay dividends out of current earnings. In addition, if, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice, which could include the payment of dividends, such authority may take actions requiring that such bank refrain from the practice. Payment of dividends could also be subject to regulatory limitations if a subsidiary bank were to become “under-capitalized” for purposes of the applicable federal regulatory “prompt corrective action” regulations.

### ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved written comments that were received from the SEC’s staff 180 days or more before the end of the Company’s fiscal year relating to its periodic or current reports filed under the Securities Exchange Act of 1934.

### ITEM 2. PROPERTIES

At December 31, 2014, the Company operated 460 domestic branches, of which 286 are owned and 174 are leased. The Company also leases its headquarters offices in Salt Lake City, Utah. Other operations facilities are either owned or leased. The annual rentals under long-term leases for leased premises are determined under various formulas and factors, including operating costs, maintenance and taxes. For additional information regarding leases and rental payments, see Note 17 of the Notes to Consolidated Financial Statements.

### ITEM 3. LEGAL PROCEEDINGS

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

### ITEM 4. MINE SAFETY DISCLOSURES

None.

## PART II

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

The Company’s common stock is traded on the NASDAQ Global Select Market under the symbol “ZION.” The last reported sale price of the common stock on NASDAQ on February 18, 2015 was \$26.04 per share.





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

	2014		2013	
	High	Low	High	Low
1st Quarter	\$33.33	\$27.82	\$25.86	\$21.56
2nd Quarter	31.87	27.65	29.41	23.10
3rd Quarter	30.89	27.44	31.40	26.79
4th Quarter	29.93	25.02	30.13	26.89

During 2014, the Company issued \$525 million of common stock, which consisted of approximately 17.6 million shares at a price of \$29.80 per share. Net of commissions and fees, this issuance added approximately \$516 million to common stock.

See Note 13 of the Notes to Consolidated Financial Statements for further information regarding equity transactions during 2014.

As of February 18, 2015, there were 5,323 holders of record of the Company's common stock.

**EQUITY CAPITAL AND DIVIDENDS**

We have 4,400,000 authorized shares of preferred stock without par value and with a liquidation preference of \$1,000 per share. As of December 31, 2014, 66,034, 143,750, 171,827, 126,221, 300,893, and 195,152 of preferred shares series A, F, G, H, I, and J respectively, have been issued and are outstanding. In addition, holders of \$151 million of the Company's subordinated debt have the right to convert that debt into either Series A or C preferred stock. In general, preferred shareholders may receive asset distributions before common shareholders; however, preferred shareholders have only limited voting rights generally with respect to certain provisions of the preferred stock, the issuance of senior preferred stock, and the election of directors. Preferred stock dividends reduce earnings available to common shareholders and are paid quarterly or semiannually in arrears. The redemption amount is computed at the per share liquidation preference plus any declared but unpaid dividends. All of the outstanding series of preferred stock are registered with the SEC. In addition, Series A, F, G, and H preferred stock are listed and traded on the New York Stock Exchange. See Note 13 of the Notes to Consolidated Financial Statements for further information regarding the Company's preferred stock.

The frequency and amount of common stock dividends paid during the last two years are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2014	\$0.04	\$0.04	\$0.04	\$0.04
2013	0.01	0.04	0.04	0.04

The Company's Board of Directors approved a dividend of \$0.04 per common share payable on February 26, 2015 to shareholders of record on February 19, 2015. The Company expects to continue its policy of paying regular cash dividends on a quarterly basis, although there is no assurance as to future dividends because they depend on future earnings, capital requirements, financial condition, and regulatory approvals.

**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

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

**SHARE REPURCHASES**

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



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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
October	985	\$28.80	—	\$—
November	316	29.06	—	—
December	1,057	27.51	—	—
Fourth quarter	2,358	28.26	—	—

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

**PERFORMANCE GRAPH**

The following stock performance graph compares the five-year cumulative total return of Zions Bancorporation's common stock with the Standard & Poor's 500 Index and the KBW Bank Index, both of which include Zions Bancorporation. The KBW Bank Index is a market capitalization-weighted bank stock index developed and published by Keefe, Bruyette & Woods, Inc., a nationally recognized brokerage and investment banking firm specializing in bank stocks. The index is composed of 24 geographically diverse stocks representing national money center banks and leading regional financial institutions. The stock performance graph is based upon an initial investment of \$100 on December 31, 2009 and assumes reinvestment of dividends.

**PERFORMANCE GRAPH FOR ZIONS BANCORPORATION  
INDEXED COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN**

	2009	2010	2011	2012	2013	2014
Zions Bancorporation	100.0	189.2	127.4	167.8	235.9	225.8
KBW Bank Index	100.0	123.3	94.9	125.8	172.9	188.9
S&P 500	100.0	114.8	117.2	135.8	179.4	203.6

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## ITEM 6. SELECTED FINANCIAL DATA

## FINANCIAL HIGHLIGHTS

(Dollar amounts in millions, except per share amounts)	2014/2013 Change	2014	2013	2012	2011	2010
<b>For the Year</b>						
Net interest income	-1	% \$1,680.0	\$1,696.3	\$1,731.9	\$1,756.2	\$1,714.3
Noninterest income	+51	% 508.6	337.4	419.9	498.2	453.6
Total revenue	+8	% 2,188.6	2,033.7	2,151.8	2,254.4	2,167.9
Provision for loan losses	-13	% (98.1 )	(87.1 )	14.2	74.5	852.7
Noninterest expense	-3	% 1,665.3	1,714.4	1,595.0	1,658.6	1,718.3
Impairment loss on goodwill	—	% —	—	1.0	—	—
Income (loss) before income taxes	+53	% 621.4	406.4	541.6	521.3	(403.1 )
Income taxes (benefit)	+56	% 222.9	142.9	193.4	198.6	(106.8 )
Net income (loss)	+51	% 398.5	263.5	348.2	322.7	(296.3 )
Net income (loss) applicable to noncontrolling interests	-100	% —	(0.3 )	(1.3 )	(1.1 )	(3.6 )
Net income (loss) applicable to controlling interest	+51	% 398.5	263.8	349.5	323.8	(292.7 )
Net earnings (loss) applicable to common shareholders	+11	% 326.6	294.0	178.6	153.4	(412.5 )
<b>Per Common Share</b>						
Net earnings (loss) – diluted	+6	% 1.68	1.58	0.97	0.83	(2.48 )
Net earnings (loss) – basic	+6	% 1.68	1.58	0.97	0.83	(2.48 )
Dividends declared	+23	% 0.16	0.13	0.04	0.04	0.04
Book value <sup>1</sup>	+6	% 31.35	29.57	26.73	25.02	25.12
Market price – end		28.51	29.96	21.40	16.28	24.23
Market price – high		33.33	31.40	22.81	25.60	30.29
Market price – low		25.02	21.56	16.40	13.18	12.88
<b>At Year-End</b>						
Assets	+2	% 57,209	56,031	55,512	53,149	51,035
Net loans and leases	+3	% 40,064	39,043	37,665	37,258	36,830
Deposits	+3	% 47,847	46,362	46,133	42,876	40,935
Long-term debt	-52	% 1,092	2,274	2,337	1,954	1,943
<b>Shareholders' equity:</b>						
Preferred equity	—	% 1,004	1,004	1,128	2,377	2,057
Common equity	+17	% 6,366	5,461	4,924	4,608	4,591
Noncontrolling interests	—	% —	—	(3 )	(2 )	(1 )
<b>Performance Ratios</b>						
Return on average assets		0.71	% 0.48	% 0.66	% 0.63	% (0.57 )%
Return on average common equity		5.42	% 5.73	% 3.76	% 3.32	% (9.26 )%
Tangible return on average tangible common equity		6.70	% 7.44	% 5.18	% 4.72	% (11.88 )%
Net interest margin		3.26	% 3.36	% 3.57	% 3.77	% 3.70 %

Capital Ratios <sup>1</sup>

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Equity to assets	12.88	%	11.54	%	10.90	%	13.14	%	13.02	%
Tier 1 common	11.92	%	10.18	%	9.80	%	9.57	%	8.95	%
Tier 1 leverage	11.82	%	10.48	%	10.96	%	13.40	%	12.56	%
Tier 1 risk-based capital	14.47	%	12.77	%	13.38	%	16.13	%	14.78	%
Total risk-based capital	16.27	%	14.67	%	15.05	%	18.06	%	17.15	%
Tangible common equity	9.48	%	8.02	%	7.09	%	6.77	%	6.99	%
Tangible equity	11.27	%	9.85	%	9.15	%	11.33	%	11.10	%

Selected Information

Average common and common-equivalent shares (in thousands)	192,789		184,297		183,236		182,605		166,054
Common dividend payout ratio	9.56	%	8.20	%	4.14	%	4.80	%	na
Full-time equivalent employees	10,462		10,452		10,368		10,606		10,524
Commercial banking offices	460		469		480		486		495

<sup>1</sup> At year-end.

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

EXECUTIVE SUMMARY

Company Overview

Zions Bancorporation ("the Parent") and subsidiaries (collectively "the Company," "Zions," "we," "our," "us") together comprise a \$57 billion financial holding company headquartered in Salt Lake City, Utah. The Company is considered a "systemically important financial institution" under the Dodd-Frank Act.

- As of December 31, 2014, the Company was the 16<sup>th</sup> largest domestic bank holding company in terms of deposits and is included in the S&P 500 and NASDAQ Financial 100 indices.

At December 31, 2014, the Company operated banking businesses through 460 domestic branches in eleven western and southwestern states.

The Company ranked 4th in small business lending of large institutions in the Small Business Administration's "Small Business Lending in the United States 2013" report released in December, 2014.

- The Company has been awarded numerous "Excellence" awards by Greenwich Associates, having received 12 awards for the 2013 survey; only 12 U.S. banks were awarded more than 10 excellence awards. The 2014 awards were not available at the time of publication for this document.

Revenues and profits are primarily derived from commercial customers.

The Company also emphasizes mortgage banking, wealth management and brokerage services.

Long-Term Strategy

We strive to maintain a local community and regional bank approach for customer-facing elements of our business. We believe that our target customers appreciate the local focus and fast decision-making provided by our local management teams. By retaining a significant degree of autonomy in product offerings and pricing, we believe our banks have a meaningful competitive advantage over larger national banks whose loan and deposit products are often homogeneous. However, we centralize or oversee centrally many non-customer facing operations, such as risk and capital management, and technology and back office operations. Currently, the Company is undertaking an extensive overhaul of its back office and accounting systems and is further evaluating ways to streamline its operations and improve its overall efficiency. By centralizing many of these functions, we believe we can generally achieve greater economies of scale and stronger risk management, and that scale gives our portfolio of community banks superior access to capital markets, more robust treasury management and other product capabilities than smaller, independent community banks.

Our strategy is driven by four key factors:

• focus on geographies representing growth markets;

• maintain a sustainable competitive advantage over large national and global banks by keeping many decisions that affect customers local;

• maintain a sustainable competitive advantage over community banks by delivering superior products, realizing productivity and efficiencies derived from economies of scale, and providing a lower cost of capital; and

• centralize and standardize policies and oversight of key risks, technology and operations.

The Company continues to evaluate and alter its strategies as it attempts to mitigate adverse impacts on shareholder returns; however, given the still-changing regulatory environment, the results of these efforts cannot yet be known.

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### Focus on Geographies Representing Growth Markets

The Company seeks to grow both organically and through acquisitions in growth markets, primarily in the Western part of the United States. The states in our Western geographic footprint have, on average, experienced higher rates of population and economic growth than the rest of the country. Our footprint is well diversified by industry and enjoys strong business formation rates, real estate development, and general economic expansion.

GDP growth in our footprint has exceeded nominal U.S. GDP by an average of 1.2% per year (compounded) over the last 10 years; i.e., from 2003-2013, nominal U.S. GDP grew by 3.9%, while nominal GDP in Zions' footprint (weighted by December 31, 2014 assets) grew by 5.1%.

Job creation within the Zions' footprint has greatly exceeded the national rate during the past 10 years. U.S. nonfarm payroll jobs increased by 6.2% during the last 10 years; however, job creation in Zions' footprint increased by 15.2%.

While some states in our footprint experienced a significant slowing in economic activity during the recent recession, others experienced above-average growth and stronger resistance to the economic downturn.

More than 77% of the Company's assets are held in the banks headquartered in Utah, Texas and California. Zions Bank has approximately \$19 billion in assets, which represent 33% of the Company's assets. Zions Bank is the second largest full-service commercial bank in the state of Utah and the fourth largest in Idaho as measured by domestic deposits, and operates in all submarkets in Utah and most submarkets in Idaho. The Utah economy is primarily based on the energy, agriculture, real estate, computer technology, education, health care, and financial services sectors. During 2014, Utah employment grew at a rate of 3.9% compared to the national employment growth rate of 1.8%. This growth improved Utah's overall unemployment rate to 3.5% in 2014 from 4.1% in 2013. In addition, the Utah state government has been recognized for its policies promoting a business-friendly climate, providing a predictable and stable tax policy, and controlling government spending levels. See "Business Segment Results" on page 46 for further discussion on the 2014 performance of Zions Bank.

Amegy, located in Texas, has \$14 billion in assets, which represent approximately 24% of the Company's assets. Texas has a well diversified economy that is the second largest in the United States. Significant drivers of its growth are the energy, health care, manufacturing, transportation, and technology sectors. In addition, the Texas economic environment benefits from business-friendly growth policies and affordable housing markets. These attributes and industry sectors have propelled the Texas economy to outperform the nation, which has resulted in the unemployment rate declining to 4.6% compared to the national rate of 5.6%. Amegy's three primary markets, Houston, Dallas and San Antonio, experienced strong job growth in 2014. However, due to the decline in energy commodity prices in late 2014, economic conditions are generally expected to slow compared to 2014. Included within this document is an extensive discussion on the Company's energy-related exposure as found on page 65. See "Business Segment Results" on page 46 for further discussion on the 2014 performance of Amegy.

CB&T has approximately \$11 billion in assets, which represent 20% of the Company's assets. Trends in unemployment, home foreclosures, and bank credit problems continue to improve throughout California, resulting in corresponding reductions in problem credits and nonperforming assets at CB&T. During 2014, California employment grew 2.1%, which marked the state's third straight year growing at least 2%. This growth improved California's overall unemployment rate to 7.0% in 2014 from 8.3% in 2013. California's recovery, however, has been uneven with coastal areas experiencing much greater gains in employment and housing prices than the interior parts of the state. CB&T's primary markets – the coastal and major metropolitan areas in California including the San Francisco Bay area, Los Angeles County, Orange County, and San Diego – continued to experience economic improvements in 2014 compared to 2013. Unemployment rates are much lower in CB&T's primary markets compared to the state as a whole. See "Business Segment Results" on page 46 for further discussion of the 2013 performance of CB&T.





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### Keep Decisions That Affect Customers Local

We believe that over the long term, ensuring that local management teams retain the authority over many of the decisions affecting their customers is a strategy that ultimately generates optimal growth and profitability in our banking businesses. We operate eight different community and regional banks, each under a different name and each with its own charter, chief executive officer, and management team. We believe this approach allows us to attract and retain exceptional management, and provides service of the highest quality to our targeted customers. This structure helps ensure that many of the decisions related to customers are made at a local level:

- branding and marketing strategies;
- product offerings and pricing;
- credit decisions (within the limits of established corporate policy); and
- relationship management strategies and the integration of various business lines.

The results of this service are evident in the outcome of the Greenwich Associates annual survey, wherein the Company consistently receives numerous “Excellent” ratings from small and middle-market businesses.

### Maintain a Sustainable Competitive Advantage Over Community Banks

To create a sustainable competitive advantage over other smaller community banks, we focus on achieving better product breadth and quality, productivity, economies of scale, availability of liquidity, and a lower cost of capital. Compared to community banks, our objectives include the following:

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

### Centralize and Standardize Policies and Oversight of Key Risks

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

• The Company conducts regular stress testing of the loan portfolio using multiple economic scenarios. Such tests help to identify pockets of risk and enable management to reduce risk.

• The Company oversees credit risk using a single credit policy and specialists in business, commercial real estate, and consumer lending; additionally the Company’s manages concentration risk.

• The Company regularly measures interest rate and liquidity risk and uses capital markets instruments to adjust risks to stay within Board-approved levels.

• The Company centrally monitors and oversees operational risk. Centralized internal audit, credit examination, and compliance functions test compliance with established policies.

### MANAGEMENT’S OVERVIEW OF 2014 PERFORMANCE

The Company reported net earnings applicable to common shareholders for 2014 of \$326.6 million or \$1.68 diluted earnings per share compared to \$294.0 million or \$1.58 per diluted common share for 2013.

While we are encouraged with the 2014 results, net income and returns on capital are still lower than peers and the Company’s aspirations.

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Areas Experiencing Strength in 2014

Net income to common shareholders improved in 2014. Two major items had a significant adverse impact on profitability during the year: 1) while debt extinguishment cost related to high-cost debt was lower than it was in 2013, the Company still had \$44.4 million of debt extinguishment cost in 2014, and 2) elevated salaries and employee benefits due largely to the Company's initiative to streamline its back office and accounting. Two major items had a significant favorable impact on profitability in 2014: 1) the negative provision for loan losses and unfunded lending commitments of \$106.7 million (which is not expected to continue in 2015), and 2) the reduction of interest expense on long-term debt from the debt redemptions and maturities.

Tier 1 common ("T1C") capital plus reserves for credit losses improved and ranks well above the peer median (see Chart 1). In July of 2014 the Company issued \$525 million of common equity in response to the CCAR results; as a result of this action, as well as increased retained earnings, the T1C capital ratio further improved to 11.92% at December 31, 2014.

Additionally, we made significant progress towards reducing the cost of debt. In 2014, we reduced long-term debt by \$1.2 billion through tender offers, early calls and redemptions at maturity. As a result of these actions, we estimate that interest expense on long-term debt in 2015 will decline by approximately \$53 million.

Asset quality improved significantly; nonperforming lending-related assets declined 28% in 2014 (see Chart 2), and net charge-offs declined to \$42 million in 2014 compared to \$52 million in 2013. As a result, credit costs, including the provision for loan losses and unfunded lending commitments, other real estate expense and credit-related expense, declined approximately 16%.

Despite a difficult interest rate environment and modest loan growth, net interest income only declined 1.0% in 2014 compared to 2013 (see Chart 3), and grew slightly in the fourth quarter of 2014. The decline was due to reduced income from FDIC-supported loans as that portfolio, purchased in 2009, winds down.

During 2014 we undertook considerable actions to reduce risk by selling a significant portion of the Company's construction and land development loans, as well as significantly reducing the size of the CDO portfolio.

Tangible book value per common share improved by 9.8% in 2014, compared to 2013, due to increased retained earnings and a reduction in OCI due to CDO sales and improvement in the market value of the remaining CDO securities.

Chart 1. TIER 1 COMMON CAPITAL + RESERVES AS A PERCENTAGE OF RISK-WEIGHTED ASSETS\*

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Chart 2. NONPERFORMING LENDING-RELATED ASSETS AS A PERCENTAGE OF NET LOANS AND OTHER REAL ESTATE OWNED

Chart 3. NET INTEREST INCOME

(amounts in millions)

Areas Experiencing Weakness in 2014

Although net income applicable to common shareholders improved in 2014, the additional common equity issued in response to the Federal Reserve 2014 stress test results for the Company and additional retained earnings meant that returns on common equity declined. For example, the tangible return on tangible common equity declined to 6.7% in 2014 from 7.4% in 2013.

Although loans increased somewhat compared to 2013, the growth was very modest. Loans increased on a net basis by \$1.0 billion, or 2.6%, compared to December 31, 2013, including increases of \$704 million in commercial and industrial and \$459 million in 1-4 family residential. As noted, the Company particularly constrained the growth in construction and land development loans in 2014 for risk management purposes. We also continued to experience weakness resulting from attrition in our National Real Estate Group owner-occupied loan portfolio, which is expected to continue. This business is a wholesale business and depends upon loan referrals from other community banking institutions; due to generally soft loan demand nationally, many banks are retaining, rather than selling, their loan production.

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Our net interest margin declined to 3.26% in 2014 from 3.36% in 2013, which was due primarily to a reduction in FDIC-supported loan income as that portfolio continues to wind down, competitive pricing pressure, and improvement in the underlying quality of our borrowers' financial condition (see discussion on asset quality on page 72). Nevertheless, our NIM continued to remain reasonably strong relative to other peer banks, and actually improved slightly in the fourth quarter of 2014 compared to the third quarter.

Redemption expenses of high-cost debt weighed significantly on profitability. The high cost of debt is a byproduct of our efforts to stabilize the Company's capital base and funding during the recent recession. While significant debt refinancing activities were completed in 2014, some additional relatively expensive debt that matures in 2015 remains.

Noninterest expense levels are elevated and are expected to remain higher than normal as we continue to implement several technology initiatives that are designed to streamline the efficiency of the Company. Upon completion of these initiatives, we expect expenses relative to revenues to improve meaningfully.

### Areas of Focus for 2015

In 2015, we are focused on improving Company profitability and returns on equity with initiatives across the enterprise. Major areas of emphasis include:

Business activities:

Stabilize and improve net interest margin by:

Continuing to incrementally deploy the Company's excess cash into higher yielding, short-to-medium duration HQLA, which was begun in the latter half of 2014.

Complete the retirement of expensive long-term debt that arose from actions taken during the economic crisis.

Continue to emphasize loan growth, particularly through continued strong business lending and additional growth in residential mortgage lending; and

Continue efforts to increase fee income.

Continued improvements in the capital structure:

In addition to the retirement of debt mentioned previously, over time seek to alter the mix of capital in our capital structure; that mix currently includes relatively higher levels of preferred stock than peer institutions.

Credit:

Maintain strong levels of asset quality. We expect energy loans to experience deterioration although losses are currently expected to be modest; however, we expect continued modest improvement in other segments of the loan portfolio.

Operations:

Continue to invest in previously announced major upgrades to the Company's systems, while maintaining noninterest expenses at or near current levels.

Pursue further opportunities for operating efficiencies.

Continue responsible risk management improvements.

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Schedule 1 presents the key drivers of the Company's performance during 2014 and 2013.

## Schedule 1

## KEY DRIVERS OF PERFORMANCE

## 2014 COMPARED TO 2013

Driver	2014	2013	Change better/(worse)	
	(Amounts in billions)			
Average net loans and leases	\$39.5	\$38.1	4	%
Average money market investments	8.2	8.8	(7	)%
Average noninterest-bearing deposits	19.6	18.0	9	%
Average total deposits	46.3	45.3	2	%
	(Amounts in millions)			
Net interest income	\$1,680.0	\$1,696.3	(1	)%
Provision for loan losses	(98.1	) (87.1	) 13	%
Net impairment losses on investment securities	—	(165.1	) 100	%
Other noninterest income	508.6	502.5	1	%
Noninterest expense	1,665.3	1,714.4	3	%
Nonaccrual loans <sup>1</sup>	307	406	24	%
Net interest margin	3.26	% 3.36	% (10)bps	
Ratio of nonperforming lending-related assets to net loans and leases and other real estate owned <sup>2</sup>	0.81	% 1.15	% 34 bps	
Ratio of total allowance for credit losses to net loans and leases outstanding	1.71	% 2.14	% 43 bps	
Tier 1 common capital ratio	11.92	% 10.18	% 174 bps	

<sup>1</sup> Includes FDIC-supported loans.

<sup>2</sup> Includes loans for sale.

## CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

Note 1 of the Notes to Consolidated Financial Statements contains a summary of the Company's significant accounting policies. Discussed below are certain significant accounting policies that we consider critical to the Company's financial statements. These critical accounting policies were selected because the amounts affected by them are significant to the financial statements. Any changes to these amounts, including changes in estimates, may also be significant to the financial statements. We believe that an understanding of these policies, along with the related estimates we are required to make in recording the financial transactions of the Company, is important to have a complete picture of the Company's financial condition. In addition, in arriving at these estimates, we are required to make complex and subjective judgments, many of which include a high degree of uncertainty. The following discussion of these critical accounting policies includes the significant estimates related to these policies. We have discussed each of these accounting policies and the related estimates with the Audit Committee of the Board of Directors.

We have included, where applicable in this document, sensitivity schedules and other examples to demonstrate the impact of the changes in estimates made for various financial transactions. The sensitivities in these schedules and examples are hypothetical and should be viewed with caution. Changes in estimates are based on variations in

assumptions and are not subject to simple extrapolation, as the relationship of the change in the assumption to the change in the amount of the estimate may not be linear. In addition, the effect of a variation in one assumption is in reality likely to cause changes in other assumptions, which could potentially magnify or counteract the sensitivities.

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### Fair Value Estimates

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

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

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

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

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

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

Impairment analysis also relates to long-lived assets, goodwill, and core deposit and other intangible assets. An impairment loss is recognized if the carrying amount of the asset is not likely to be recoverable and exceeds its fair value. In determining the fair value, management uses models and applies the techniques and assumptions previously discussed.

Investment securities are valued using several methodologies, which depend on the nature of the security, availability of current market information, and other factors. CDOs are valued using an internal model and the assumptions are analyzed for sensitivity. "Investment Securities Portfolio" on page 52 provides more information regarding this analysis.

Investment securities are reviewed formally on a quarterly basis for the presence of OTTI. The evaluation process takes into account current market conditions, the fair value of the security relative to its amortized cost, and many other factors. The decision to deem these securities OTTI is based on a specific analysis of the structure of each security and an evaluation of the underlying collateral. OTTI is considered to have occurred if its fair value is below

amortized cost and (1) we intend to sell the security, or (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



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to recover the entire amortized cost basis. The “more likely than not” criteria is a lower threshold than the “probable” criteria.

Notes 1, 5, 7, 9 and 20 of the Notes to Consolidated Financial Statements and “Investment Securities Portfolio” on page 52 contain further information regarding the use of fair value estimates.

### Allowance for Credit Losses

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

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

There are numerous components that enter into the evaluation of the allowance for loan losses. Although we believe that our processes for determining an appropriate level for the allowance adequately address the various components that could potentially result in credit losses, the processes and their elements include features that may be susceptible to significant change. Any unfavorable differences between the actual outcome of credit-related events and our estimates and projections could require an additional provision for credit losses. As an example, if the PD risk grade, for all pass-graded commercial and CRE loans, was immediately downgraded one grade on a 1-14 grade scale, the quantitatively determined amount of the allowance for loan losses at December 31, 2014 would increase by approximately \$77 million. This sensitivity analysis is hypothetical and has been provided only to indicate the potential impact that changes in risk grades may have on the allowance estimation process.

Although the qualitative process is subjective, it represents the Company’s best estimate of qualitative factors impacting the determination of the allowance for loan losses. Such factors include, but are not limited to, national and regional economic trends and indicators. We believe that given the procedures we follow in determining the allowance for loan losses for the loan portfolio, the various components used in the current estimation processes are appropriate.

Note 6 of the Notes to Consolidated Financial Statements and “Credit Risk Management” on page 63 contain further information and more specific descriptions of the processes and methodologies used to estimate the allowance for credit losses.

### Accounting for Goodwill

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

To determine the fair value, we generally use a combination of up to three separate methods: comparable publicly traded financial service companies (primarily banks and bank holding companies) in the Western and Southwestern states (“Market Value”); where applicable, comparable acquisitions of financial services companies in the Western

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and Southwestern states (“Transaction Value”); and the discounted present value of management’s estimates of future cash flows. Critical assumptions that are used as part of these calculations include:

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

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

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

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

During the fourth quarter of 2014, we performed our annual goodwill impairment evaluation of the entire organization, effective October 1, 2014. Upon completion of the evaluation process, we concluded that none of our subsidiary banks was impaired. Furthermore, the evaluation process determined that the fair values of Amegy, CB&T, and Zions Bank exceeded their carrying values by 27%, 40% and 33%, respectively. Additionally, we performed a hypothetical sensitivity analysis on the discount rate assumption to evaluate the impact of an adverse change to this assumption. If the discount rate applied to future earnings were increased by 100 bps, the fair values of Amegy, CB&T, and Zions Bank would exceed their carrying values by 17%, 30% and 13%, respectively. Additionally, because of the significant decline in energy prices since October 1, 2014, we ran additional sensitivity analyses to estimate the impact that the decline would have on Amegy’s value. Even in the most severe of the additional sensitivity analyses related to the decline in energy prices, the goodwill of Amegy was not considered impaired. Note 9 of the Notes to Consolidated Financial Statements contains additional information related to goodwill.

## Income Taxes

The Company is subject to the income tax laws of the United States, its states and other jurisdictions where the Company conducts business. These laws are complex and subject to different interpretations by the taxpayer and the various taxing authorities. In determining the provision for income taxes, management must make judgments and



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estimates about the application of these laws and related regulations. In the process of preparing the Company's tax returns, management attempts to make reasonable interpretations of the tax laws. These interpretations are subject to challenge by the tax authorities upon audit or to reinterpretation based on management's ongoing assessment of facts and evolving case law.

The Company had net Deferred Tax Assets ("DTAs") of \$224 million at December 31, 2014, compared to \$304 million at December 31, 2013. The most significant portions of the deductible temporary differences relate to (1) the allowance for loan losses, (2) fair value adjustments or impairment write-downs related to securities and (3) deferred compensation arrangements. No valuation allowance has been recorded as of December 31, 2014 related to DTAs except for a full valuation reserve related to certain acquired net operating losses from an immaterial nonbank subsidiary. In assessing the need for a valuation allowance, both the positive and negative evidence about the realization of DTAs were evaluated. The ultimate realization of DTAs is based on the Company's ability to (1) carry back net operating losses to prior tax periods, (2) utilize the reversal of taxable temporary differences to offset deductible temporary differences, (3) implement tax planning strategies that are prudent and feasible, and (4) generate future taxable income.

After considering the weight of the positive evidence compared to the negative evidence, management has concluded it is more likely than not that the Company will realize the existing DTAs and that an additional valuation allowance is not needed.

On a quarterly basis, management assesses the reasonableness of its effective tax rate based upon its current best estimate of net income and the applicable taxes expected for the full year. Deferred tax assets and liabilities are also reassessed on a regular basis. Reserves for contingent tax liabilities are reviewed quarterly for adequacy based upon developments in tax law and the status of examinations or audits. The Company has tax reserves at December 31, 2014 of approximately \$2 million, net of federal and/or state benefits, for uncertain tax positions primarily for various state tax contingencies in several jurisdictions.

Note 14 of the Notes to Consolidated Financial Statements contains additional information regarding income taxes.

## RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

Note 2 of the Notes to Consolidated Financial Statements discusses recently issued accounting pronouncements that the Company will be required to adopt. Also discussed is the Company's expectation of the impact these new accounting pronouncements will have, to the extent they are material, on the Company's financial condition, results of operations, or liquidity.

## RESULTS OF OPERATIONS

The Company reported net earnings applicable to common shareholders of \$326.6 million, or \$1.68 per diluted common share for 2014, compared to \$294.0 million, or \$1.58 per diluted common share for 2013. The following changes had a favorable impact on net earnings applicable to common shareholders:

\$165.1 million decrease in net impairment losses on investment securities;

\$75.8 million decrease in debt extinguishment cost;

\$62.8 million decrease in interest on long-term debt;

\$23.6 million decrease in preferred stock dividends;

\$19.3 million decrease in other noninterest expense; and

\$13.3 million increase in fixed income securities gains.

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

\$125.7 million decrease in preferred stock redemption benefit;

\$85.0 million decrease in interest and fees on loans;

\$80.0 million increase in income tax expense; and  
\$43.5 million increase in salaries and employee benefits.

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The Company reported net earnings applicable to common shareholders of \$294.0 million, or \$1.58 per diluted common share for 2013, compared to \$178.6 million, or \$0.97 per diluted common share for 2012. The following changes had a favorable impact on net earnings applicable to common shareholders:

- \$125.7 million benefit from preferred stock redemption;
- \$101.4 million decrease in the provision for loan losses;
- \$75.4 million reduction in preferred stock dividends;
- \$21.5 million decrease in the provision for unfunded lending commitments; and
- \$18.0 million decline in other real estate expense.

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

- \$120.2 million increase in debt extinguishment cost;
- \$61.1 million increase in net impairment losses on investment securities;
- \$35.6 million decrease in net interest income;
- \$27.3 million increase in salaries and employee benefits; and
- \$25.3 million increase in other noninterest expense.

#### 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. Taxable-equivalent net interest income is the largest portion of the Company's revenue. For 2014, taxable-equivalent net interest income was \$1,696.1 million, compared to \$1,711.8 million and \$1,750.2 million, in 2013 and 2012, respectively. The tax rate used for calculating all taxable-equivalent adjustments was 35% for all years presented.

#### Net interest margin in 2014 vs. 2013

The net interest margin was 3.26% and 3.36% for 2014 and 2013, respectively. The decrease resulted primarily from lower yields on loans and AFS investment securities. The impact of these items was partially offset by lower yields and balances on the Company's long-term debt.

Even though the Company's average loan portfolio was \$1.4 billion higher during 2014, compared to 2013, the average interest rate earned on those assets was 4.39%, which is 38 bps lower than the comparable prior year rate. 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, and (3) loans originated at lower rates than the weighted average rate of the existing portfolio. 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 \$609 million during 2014, compared to \$762 million during the same prior year period. During the fourth quarter of 2013, the Company reclassified a substantial portion of its CDO securities from HTM to AFS as a result of the impact of the Volcker Rule. The average yield earned during 2014 on HTM securities was 36 bps higher than the yield in 2013, primarily due to the reclassification of CDO securities into the AFS portfolio during the fourth quarter of 2013 that have a lower-yield than the remaining securities in the HTM portfolio.

The average balance of AFS securities for 2014 increased by \$365 million, or 11.7%, compared to 2013, and the average yield in 2014 was 15 bps lower than in 2013. The increase in AFS securities was due primarily to purchases of approximately \$1.0 billion par amount of agency pass-through securities. The yield was also impacted by the sale of \$913 million amortized cost of the Company's CDO securities during 2014.

Average noninterest-bearing demand deposits provided the Company with low cost funding and comprised 42.4%

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of average total deposits for 2014, compared to 39.7% for 2013. Average interest-bearing deposit balances were down 2.5% in 2014 compared to 2013; however, the rate paid declined by 3 bps to 19 bps, thus continuing the difficulty to reduce deposit costs further as these costs approach zero.

From December 31, 2013, the Company has reduced long-term debt by \$1.2 billion as a result of tender offers, early calls, and redemptions at maturity, including \$835 million during the third quarter of 2014. These actions led to a decrease of \$463 million, or 20.3%, of the Company's average long-term debt outstanding in 2014 compared to 2013. The average interest rate paid on long-term debt for 2014 decreased by 138 bps compared to 2013. Refer to the "Liquidity Risk Management" section beginning on page 81 for more information.

During 2014, most of the Company's cash in excess of that needed to fund earning assets was invested in money market assets, primarily deposits with the Federal Reserve Bank. Average money market investments were 15.8% of total interest-earning assets, compared to 17.3% in the prior year.

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.

Net interest margin in 2013 vs. 2012

The net interest margin was 3.36% and 3.57% for 2013 and 2012, respectively. The decrease resulted primarily from: lower yields on loans, excluding FDIC-supported loans, and AFS investment securities; and increased balance of low-yielding money market investments.

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

lower yields on long-term debt and deposit funding; and higher yields on FDIC-supported loans.

Even though the Company's average loan portfolio, excluding FDIC-supported loans, was \$1.3 billion higher in 2013 than in 2012, the average interest rate earned on those assets was 42 bps lower. This decline in interest income was driven by a reduction in FDIC-supported loan income as that portfolio continues to wind down, competitive pricing pressure, and improvement in the underlying quality of our borrowers' financial condition (see discussion on asset quality on page 72).

The yield earned on AFS securities during 2013 was 77 bps lower than in the prior year. The yield decline primarily related to lower yields on asset-backed securities. The fair values of these securities increased during 2013, but the coupon rates stayed the same, resulting in lower yields. Also, the interest rates for most of the securities in the AFS securities portfolio are based on variable rate indexes such as the 3-month LIBOR rate, which decreased between these years.

During 2013, most of the Company's excess liquidity was invested in money market assets, primarily deposits with the Federal Reserve Bank. Average money market investments increased to 17.3% of total interest-earning assets in 2013 compared to 16.2% in the prior year. The average rate earned on these investments remained essentially unchanged for these years.

Noninterest-bearing demand deposits provided the Company with low cost funding and comprised 39.7% of average total deposits in 2013 compared to 38.4% in 2012. Additionally, the average rate paid on interest-bearing deposits during 2013 decreased by 8 bps compared to 2012.

During 2013, the Company refinanced a portion of its long-term debt by redeeming and repurchasing higher cost debt, while issuing new lower cost debt. This resulted in a \$39 million increase in the average balance of long-term debt. The average interest rate paid on long-term debt decreased by 191 bps due to these transactions, as well as a reduction in the accelerated amortization of discount related to conversions of subordinated debt to preferred stock. Refer to the "Liquidity Management Actions" section on page 83 for more information.



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Chart 4 illustrates recent trends in the net interest margin and the average federal funds rate.

Chart 4. NET INTEREST MARGIN

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.

The spread on average interest-bearing funds was 2.99%, 3.02%, and 3.16% for 2014, 2013, and 2012, respectively.

The spread on average interest-bearing funds for 2014 was affected by the same factors that had an impact on the net interest margin.

We expect the mix of interest-earning assets to change over the next several quarters due to further decreases in the FDIC-supported/PCI loan portfolio, and slight-to-moderate loan growth in the commercial and industrial and residential mortgage portfolios, accompanied by somewhat less growth 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 instruments, 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 likely 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 that resulted from the Company’s tender offers, early calls, and maturities during 2014. Additional reductions to long-term debt will occur due to maturities in 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 high quality liquid assets that the Company will be required to hold on its balance sheet, we decided in the second half of 2014 to begin deploying cash into short-to-medium duration agency pass-through securities. In 2014, the Company increased its HQLA securities by approximately \$1.0 billion par amount and is continuing these purchases in 2015. 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 77.

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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.

## Schedule 2

## DISTRIBUTION OF ASSETS, LIABILITIES, AND SHAREHOLDERS' EQUITY

## AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Amounts in millions)	2014			2013		
	Average balance	Amount of interest <sup>1</sup>	Average rate	Average balance	Amount of interest <sup>1</sup>	Average rate
<b>ASSETS</b>						
Money market investments	\$8,211	\$21.4	0.26 %	\$8,848	\$23.4	0.26 %
Securities:						
Held-to-maturity	609	32.1	5.27	762	37.4	4.91
Available-for-sale	3,472	75.3	2.17	3,107	72.2	2.32
Trading account	61	2.0	3.22	32	1.0	3.29
Total securities	4,142	109.4	2.64	3,901	110.6	2.84
Loans held for sale	128	4.6	3.63	149	5.4	3.58
Loans and leases <sup>2</sup>	39,523	1,733.7	4.39	38,107	1,817.5	4.77
Total interest-earning assets	52,004	1,869.1	3.59	51,005	1,956.9	3.84
Cash and due from banks	897			1,016		
Allowance for loan losses	(690 )			(830 )		
Goodwill	1,014			1,014		
Core deposit and other intangibles	31			44		
Other assets	2,634			2,693		
Total assets	\$55,890			\$54,942		
<b>LIABILITIES</b>						
Interest-bearing deposits:						
Saving and money market	\$23,532	37.0	0.16	\$22,891	39.7	0.17
Time	2,490	11.5	0.46	2,792	15.9	0.57
Foreign	642	1.2	0.18	1,662	3.3	0.20
Total interest-bearing deposits	26,664	49.7	0.19	27,345	58.9	0.22
Borrowed funds:						
Federal funds purchased and other short-term borrowings	223	0.3	0.11	278	0.3	0.11
Long-term debt	1,811	123.0	6.79	2,274	185.9	8.17
Total borrowed funds	2,034	123.3	6.06	2,552	186.2	7.29
Total interest-bearing liabilities	28,698	173.0	0.60	29,897	245.1	0.82
Noninterest-bearing deposits	19,609			17,971		
Other liabilities	555			586		
Total liabilities	48,862			48,454		
Shareholders' equity:						
Preferred equity	1,004			1,360		
Common equity	6,024			5,130		
Controlling interest shareholders' equity	7,028			6,490		
Noncontrolling interests	—			(2 )		
Total shareholders' equity	7,028			6,488		
Total liabilities and shareholders' equity	\$55,890			\$54,942		
Spread on average interest-bearing funds			2.99 %			3.02 %

Taxable-equivalent net interest income and net yield on interest-earning assets	\$1,696.1	3.26	%	\$1,711.8	3.36	%
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<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.

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2012 Average balance	Amount of interest <sup>1</sup>	Average rate	2011 Average balance	Amount of interest <sup>1</sup>	Average rate	2010 Average balance	Amount of interest <sup>1</sup>	Average rate
\$7,930	\$21.1	0.27 %	\$5,356	\$13.8	0.26 %	\$4,085	\$11.0	0.27 %
774	42.3	5.47	818	44.7	5.47	866	44.3	5.12
3,047	94.2	3.09	3,895	89.6	2.30	3,416	91.5	2.68
24	0.7	3.13	58	2.0	3.45	61	2.2	3.64
3,845	137.2	3.57	4,771	136.3	2.86	4,343	138.0	3.18
187	6.6	3.51	146	5.7	3.94	187	8.9	4.78
37,037	1,892.0	5.11	36,897	2,053.0	5.56	38,326	2,170.5	5.66
48,999	2,056.9	4.20	47,170	2,208.8	4.68	46,941	2,328.4	4.96
1,102			1,056			1,214		
(986 )			(1,272 )			(1,556 )		
1,015			1,015			1,015		
60			78			101		
3,089			3,363			3,912		
\$53,279			\$51,410			\$51,627		
\$22,061	52.3	0.24	\$21,476	84.8	0.39	\$22,039	126.5	0.57
3,208	23.1	0.72	3,750	35.6	0.95	4,747	59.8	1.26
1,493	4.7	0.31	1,515	8.1	0.53	1,626	9.8	0.60
26,762	80.1	0.30	26,741	128.5	0.48	28,412	196.1	0.69
499	1.4	0.28	832	6.7	0.80	1,149	12.5	1.09
2,234	225.2	10.08	1,913	297.2	15.54	1,980	383.8	19.38
2,733	226.6	8.29	2,745	303.9	11.07	3,129	396.3	12.67
29,495	306.7	1.04	29,486	432.4	1.47	31,541	592.4	1.88
16,668			14,531			13,318		
605			523			576		
46,768			44,540			45,435		
1,768			2,257			1,732		
4,745			4,614			4,452		
6,513			6,871			6,184		
(2 )			(1 )			8		

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6,511			6,870			6,192				
\$53,279			\$51,410			\$51,627				
		3.16	%			3.21	%		3.08	%
\$1,750.2		3.57	%	\$1,776.4		3.77	%	\$1,736.0	3.70	%

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Schedule 3 analyzes the year-to-year changes in net interest income on a fully taxable-equivalent basis for the years indicated. For purposes of calculating the yields in these schedules, the average loan balances also include the principal amounts of nonaccrual and restructured loans. However, interest received on nonaccrual loans is included in income only to the extent that cash payments have been received and not applied to principal reductions. In addition, interest on restructured loans is generally accrued at reduced rates.

## Schedule 3

## ANALYSIS OF INTEREST CHANGES DUE TO VOLUME AND RATE

(In millions)	2014 over 2013		Total changes	2013 over 2012		Total changes
	Changes due to Volume	Rate <sup>1</sup>		Changes due to Volume	Rate <sup>1</sup>	
<b>INTEREST-EARNING ASSETS</b>						
Money market investments	\$(1.6 )	\$(0.4 )	\$(2.0 )	\$2.7	\$(0.4 )	\$2.3
Securities:						
Held-to-maturity	(7.5 )	2.2	(5.3 )	(0.6 )	(4.3 )	(4.9 )
Available-for-sale	7.8	(4.7 )	3.1	1.5	(23.5 )	(22.0 )
Trading account	1.0	—	1.0	0.3	—	0.3
Total securities	1.3	(2.5 )	(1.2 )	1.2	(27.8 )	(26.6 )
Loans held for sale	(0.8 )	—	(0.8 )	(1.3 )	0.1	(1.2 )
Loans and leases <sup>2</sup>	60.8	(144.6 )	(83.8 )	50.8	(125.3 )	(74.5 )
Total interest-earning assets	59.7	(147.5 )	(87.8 )	53.4	(153.4 )	(100.0 )
<b>INTEREST-BEARING LIABILITIES</b>						
Interest-bearing deposits:						
Saving and money market	0.4	(3.1 )	(2.7 )	2.3	(14.9 )	(12.6 )
Time	(1.4 )	(3.0 )	(4.4 )	(2.4 )	(4.8 )	(7.2 )
Foreign	(1.8 )	(0.3 )	(2.1 )	0.3	(1.7 )	(1.4 )
Total interest-bearing deposits	(2.8 )	(6.4 )	(9.2 )	0.2	(21.4 )	(21.2 )
Borrowed funds:						
Federal funds purchased and other short-term borrowings	—	—	—	(0.2 )	(0.9 )	(1.1 )
Long-term debt	(31.4 )	(31.5 )	(62.9 )	3.3	(42.6 )	(39.3 )
Total borrowed funds	(31.4 )	(31.5 )	(62.9 )	3.1	(43.5 )	(40.4 )
Total interest-bearing liabilities	(34.2 )	(37.9 )	(72.1 )	3.3	(64.9 )	(61.6 )
Change in taxable-equivalent net interest income	\$93.9	\$(109.6 )	\$(15.7 )	\$50.1	\$(88.5 )	\$(38.4 )

<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.

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

## Provisions for Credit Losses

The provision for loan losses is the amount of expense that, in our judgment, is required to maintain the allowance for loan losses at an adequate level based upon the inherent risks in the loan portfolio. The provision for unfunded lending commitments is used to maintain the reserve for unfunded lending commitments at an adequate level based upon the inherent risks associated with such commitments. In determining adequate levels of the allowance and reserve, we perform periodic evaluations of the Company's various loan portfolios, the levels of actual charge-offs, credit trends,

and external factors. See Note 6 of the Notes to Consolidated Financial Statements and “Credit Risk Management” on page 63 for more information on how we determine the appropriate level for the ALLL and the RULC.

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During the past few years, the Company has experienced a significant improvement in credit quality metrics, including lower levels of criticized and classified loans and lower realized loss rates in most loan segments. For example, at December 31, 2014, classified loans were \$1.1 billion compared to \$1.3 billion and \$1.9 billion at December 31, 2013 and 2012, respectively. Net loan and lease charge-offs declined to \$42 million in 2014 from \$52 million and \$155 million in 2013 and 2012, respectively. The 2014 ratio of net loan and lease charge-offs to average loans was 0.11%. See “Nonperforming Assets” on page 72 and “Allowance and Reserve for Credit Losses” on page 75 for further details.

These sustained significant improvements in portfolio-specific credit quality metrics, sustained improvement in broader economic and credit quality indicators, and changes in the portfolio mix resulting from the reductions in outstanding balances of construction and land development loans, combined with relatively modest growth in loans and commitments, have resulted in negative provisions for loan and lease losses and a reduction in the ALLL. The provision for loan losses for 2014 was \$(98.1) million compared to \$(87.1) million and \$14.2 million for 2013 and 2012, respectively.

However, as the Company’s credit quality metrics have improved to relatively strong levels, the scope for further improvement is believed to be limited. In the fourth quarter of 2014, the Company decided to increase the portion of the reserve related to qualitative and environmental factors due to recent sharp declines in energy prices causing anticipated credit losses to increase across the Company’s energy portfolio. The Company continues to exercise caution with regard to the appropriate level of the allowance for loan losses, given the slow economic recovery and the decline in oil and gas prices. As a result, we currently do not expect further significant reductions in the ALLL in 2015, and we currently expect net positive provisions for the year.

During 2014, the Company recorded an \$(8.6) million provision for unfunded lending commitments compared to \$(17.1) million in 2013 and \$4.4 million in 2012. The negative provision in 2014 was primarily driven by the same factors that caused the negative provision for loan losses described previously. The overall decrease in the provision from 2012 to 2013 resulted primarily from refinements in the process of estimating the rate at which such commitments are likely to convert into funded balances, and from continued improvements in credit quality. The decrease was partially offset by an increase in unfunded lending commitments. 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, and funding, as well as changes in credit quality.

A significant contributor to net earnings in both 2013 and 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. Although we currently expect further improvements in credit quality, we do not expect this to be a significant source of earnings. Deterioration in economic conditions within our footprint would likely result in net additions to the allowance, such as the recent decline in oil and gas prices at Amegy in the fourth quarter of 2014, resulting 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 2014, noninterest income was \$508.6 million compared to \$337.4 million in 2013 and \$419.9 million in 2012.



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Schedule 4 presents a comparison of the major components of noninterest income for the past three years.

## Schedule 4

## NONINTEREST INCOME

(Amounts in millions)	2014	Percent change	2013	Percent change	2012
Service charges and fees on deposit accounts	\$174.0	(1.3 )%	\$176.3	(0.1 )%	\$176.4
Other service charges, commissions and fees	191.5	5.5	181.5	4.1	174.4
Trust and wealth management income	30.6	2.3	29.9	5.3	28.4
Capital markets and foreign exchange	22.4	(20.3 )	28.1	4.9	26.8
Dividends and other investment income	43.7	(5.2 )	46.1	(17.4 )	55.8
Loan sales and servicing income	26.0	(26.3 )	35.3	(11.8 )	40.0
Fair value and nonhedge derivative loss	(11.4 )	37.4	(18.2 )	16.5	(21.8 )
Equity securities gains, net	13.5	58.8	8.5	(24.8 )	11.3
Fixed income securities gains (losses), net	10.4	458.6	(2.9 )	(114.8 )	19.6
Impairment losses on investment securities:					
Impairment losses on investment securities	—	100.0	(188.6 )	(13.4 )	(166.3 )
Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income)	—	(100.0 )	23.5	(62.2 )	62.2
Net impairment losses on investment securities	—	100.0	(165.1 )	(58.6 )	(104.1 )
Other	7.9	(55.9 )	17.9	36.6	13.1
Total	\$508.6	50.7	\$337.4	(19.6 )	\$419.9

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 \$10 million in 2014 compared to 2013. Most of the increase can be attributed to higher interchange fees, which increased by approximately \$13 million in 2014, primarily due to increased numbers of commercial card customers and increased usage of those cards. This was offset by a decrease of approximately \$3 million in exchange and other fees.

In 2013, other service charges, commissions and fees increased by \$7.1 million compared to 2012. Most of the increase can be attributed to higher bankcard merchant and interchange fees. In 2013, other service charges, commissions and fees included approximately \$34.4 million of debit card interchange fees, compared to approximately \$32.5 million in 2012.

Loan sales and servicing income decreased by \$9.3 million in 2014 compared to 2013. The decrease is mainly caused by decreased income from residential mortgage loan sales in 2014, compared to 2013. In 2014, the Company and the industry experienced a reduction in the volume of new residential loan originations primarily for refinanced mortgages. In response, the Company decided to retain more newly-originated loans on its balance sheet rather than sell them, in order to fund them using some of its excess balance sheet liquidity to improve net interest income. In 2013, the Company also had lower loan sales than in 2012 as the Company originated fewer residential mortgages and retained more mortgage loans in its portfolio than in 2012.

Capital markets and foreign exchange income includes trading income, public finance fees, foreign exchange income, and other capital market related fees. In 2014, capital markets and foreign exchange income decreased by \$5.7 million due primarily to a \$1.8 million decrease in trading income and a \$1.7 million decrease in bond origination fees from clients due to lower levels of financing activity. Capital markets and foreign exchange income remained fairly stable

in 2013 when compared to 2012.

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Fair value and nonhedge derivative loss consists of the following:

## Schedule 5

## FAIR VALUE AND NONHEDGE DERIVATIVE LOSS

(Amounts in millions)	2014	Percent change	2013	Percent change	2012
Nonhedge derivative income (loss)	\$(0.4 )	20.0 %	\$(0.5 )	66.7 %	\$(1.5 )
Total return swap	(7.9 )	63.8	(21.8 )	(0.5 )	(21.7 )
Derivative fair value credit adjustments	(3.1 )	(175.6 )	4.1	192.9	1.4
Total	\$(11.4 )	37.4	\$(18.2 )	16.5	\$(21.8 )

Fair value and nonhedge derivative loss improved by \$6.8 million in 2014 primarily as a result of the termination of the total return swap effective April 28, 2014, partially offset by losses on derivative fair value credit adjustments. Fair value and nonhedge derivative loss was \$3.6 million lower in 2013 than in 2012. The decreased losses are primarily attributable to changes in fair value on interest rate swaps.

During 2014, the Company recorded \$13.5 million of equity securities gains, compared to \$8.5 million in 2013 and \$11.3 million in 2012. The increase was driven by unrealized gains related to appreciation of the Company's SBIC equity investments, including a particular investment that had a significant write-up in the fourth quarter. Most of the gains recognized in 2013 were generated by SBIC investments, private equity funds, and the sale of other investments, including sales of some investments that did not comply with the Volcker Rule. We expect that the resulting decline in the overall size of our equity investments portfolio may limit future earnings from this source.

The fixed income securities gain of \$10.4 million in 2014 was primarily from paydowns and payoffs of the CDO securities; the net loss recorded in 2013 was primarily due to CDO sales.

The Company recognized only \$27 thousand of net impairment losses on investment securities compared to \$165.1 million in 2013 and \$104.1 million in 2012. See "Investment Securities Portfolio" on page 52 for additional information. These impairment losses occurred in our portfolio of trust preferred CDO securities. Approximately \$1.0 billion of these securities were sold or paid down in 2014, leaving a portfolio of \$592 million of amortized cost as of December 31, 2014.

In 2013, other noninterest income increased by \$4.8 million from 2012. The increase was primarily due to gains related to certain loans, which had been purchased from failed banks covered by FDIC loss-sharing agreements, as well as gains from branch deposit and asset sales. Other noninterest income decreased by \$10.0 million in 2014, primarily as a result of a decline in the same items that led to the increase in 2013.

## Noninterest Expense

Noninterest expense decreased by 2.9% to \$1,665.3 million in 2014, compared to 2013. During both 2013 and 2014, the Company redeemed considerable amounts of its long-term debt and incurred debt extinguishment costs, however these costs were not as large in 2014 as they were in 2013. Other noninterest expense also decreased by approximately \$19.3 million in 2014 primarily as a result of reductions in write-downs of the FDIC indemnification asset. These decreases in expense were partially offset by a 4.8% increase in salaries and employee benefits in 2014.

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Schedule 6 presents a comparison of the major components of noninterest expense for the past three years.

## Schedule 6

## NONINTEREST EXPENSE

(Amounts in millions)	2014	Percent change	2013	Percent change	2012
Salaries and employee benefits	\$956.4	4.8 %	\$912.9	3.1 %	\$885.7
Occupancy, net	115.7	3.0	112.3	(0.5 )	112.9
Furniture, equipment and software	115.3	8.2	106.6	(2.2 )	109.0
Other real estate expense	(1.2 )	(170.6 )	1.7	(91.4 )	19.7
Credit-related expense	28.0	(16.7 )	33.6	(33.5 )	50.5
Provision for unfunded lending commitments	(8.6 )	49.7	(17.1 )	(488.6 )	4.4
Professional and legal services	66.0	(2.9 )	68.0	29.5	52.5
Advertising	25.1	7.3	23.4	(8.9 )	25.7
FDIC premiums	32.2	(15.3 )	38.0	(12.4 )	43.4
Amortization of core deposit and other intangibles	10.9	(24.3 )	14.4	(15.3 )	17.0
Debt extinguishment cost	44.4	(63.1 )	120.2	—	—
Other	281.1	(6.4 )	300.4	9.2	275.2
Total	\$1,665.3	(2.9 )	\$1,714.4	7.4	\$1,596.0

Salaries and employee benefits increased by 4.8% in 2014 compared to 2013, driven by a higher amount of salaries and bonuses. The increase in base salaries resulted, in part, from increased headcount related to the Company's major systems projects and build-out of its enterprise risk management and stress testing functions, partially offset by reductions elsewhere. Staff involved in those projects tend to be in more highly compensated roles than positions in which reductions occurred. At June 30, 2014, the Company's headcount had increased to 10,536 full-time equivalent ("FTE") employees from 10,452 at December 31, 2013. During the third quarter of 2014, the Company incurred severance costs of approximately \$5 million and reduced FTE employees to 10,462 as of December 31, 2014.

Salaries and employee benefits increased by 3.1% during 2013. Most of the increase can be attributed to higher base salaries and bonuses, which were partially offset by decreased share-based compensation and lower retirement expense.

Salaries and employee benefits are shown in greater detail in Schedule 7.

## Schedule 7

## SALARIES AND EMPLOYEE BENEFITS

(Dollar amounts in millions)	2014	Percent change	2013	Percent change	2012
Salaries and bonuses	\$814.2	5.3 %	\$773.4	3.7 %	\$745.7
Employee benefits:					
Employee health and insurance	53.9	10.2	48.9	0.6	48.6
Retirement	35.0	(10.3 )	39.0	(4.4 )	40.8
Payroll taxes and other	53.3	3.3	51.6	2.0	50.6
Total benefits	142.2	1.9	139.5	(0.4 )	140.0
Total salaries and employee benefits	\$956.4	4.8	\$912.9	3.1	\$885.7

Full-time equivalent (“FTE”) employees at December 31	10,462	0.1	10,452	0.8	10,368
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Furniture, equipment and software expense increased by \$8.7 million in 2014, compared to 2013. The increase was due to an increase in the Company's maintenance agreements, added licenses, and contract renewals for a variety of vendors.

Other real estate expense went from an expense of \$1.7 million in 2013 to an income amount of \$1.3 million in 2014. The improvement in this expense is due to the Company having less holding costs associated with these properties and recognizing gains from sales. Other real estate expense decreased 91.4% in 2013, compared to 2012. The decrease is primarily due to lower write-downs of OREO values during work-out and lower holding expenses, partially offset by decreased gains from property sales. OREO balances declined by 59.0% during the last 12 months.

Credit-related expense includes costs incurred during the foreclosure process prior to the Company obtaining title to collateral and recording an asset in OREO, as well as other out-of-pocket costs related to the management of problem loans and other assets. During 2014, credit-related expense decreased by \$5.6 million primarily due to lower legal expenses, appraisal expenses and property taxes. Additionally, the levels of problem credits have decreased from 2013. The decrease in credit-related expense in 2013 is primarily attributable to lower foreclosure costs and legal expenses.

FDIC premiums decreased in 2014 by \$5.8 million, or 15.3%, from 2013. In 2013, FDIC premiums decreased by 12.4%. Most of the decrease in 2014 was due to reduced assessment rates resulting from improved credit quality of the Company's loan portfolio and improved capital adequacy. The Company does not expect the FDIC premiums to significantly change in 2015.

In both 2013 and 2014, the Company reduced long-term debt through tender offers, early calls, and maturities. The tender offers in 2014 resulted in debt extinguishment cost of \$44.4 million, which is a decrease of \$75.8 million from 2013. In 2013, the Company incurred \$120.2 million of debt extinguishment cost due the extinguishment of several long-term debt instruments. No such costs were incurred in 2012. For more information, see Note 12 of the Notes to the Consolidated Financial Statements.

Other noninterest expense decreased by \$19.3 million in 2014, compared to 2013. The decline is primarily the result of decreased write-downs of the FDIC indemnification asset. In 2013, the Company experienced an increase in write-downs of the FDIC indemnification asset compared to the prior year. The balance of FDIC-supported loans declined significantly in 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 was \$222.9 million in 2014, \$142.9 million in 2013, and \$193.4 million in 2012. The Company's effective income tax rates, including the effects of noncontrolling interests, were 35.9% in 2014, 35.1% in 2013, and 35.6% in 2012. The tax expense rates for all tax years were reduced by nontaxable municipal interest income and nontaxable income from certain bank-owned life insurance. In 2012, these rate reductions were mostly offset by the nondeductibility of a portion of the accelerated discount amortization from the conversion of subordinated debt to preferred stock. Further, the rate reductions in 2014 were offset by the reduction in the amount of tax credits generated and the inclusion of approximately \$3 million of tax-related interest expense in income tax expense on the financial statements. The interest paid related to various notices and to the closure of various federal and state audits.

As discussed in previous filings, the Company has received federal income tax credits under the U.S. Government's Community Development Financial Institutions Fund that are recognized over a seven-year period from the year of investment. The effect of these tax credits provided an income tax benefit of \$0.6 million in 2013 and \$1.2 million in 2012.

The Company had a net deferred tax asset balance of approximately \$224 million at December 31, 2014, compared to \$304 million at December 31, 2013. The decrease in the net deferred tax asset resulted primarily from items

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related to loan charge-offs in excess of loan loss provisions, fair value adjustments on security sales, and OREO. The net decrease in deferred tax assets was partially offset by a decrease in the deferred tax liabilities related to premises and equipment and the debt exchange from 2009.

The Company did not record any additional valuation allowance for GAAP purposes as of December 31, 2014. See Note 14 of the Notes to Consolidated Financial Statements and “Critical Accounting Policies and Significant Estimates” on page 30 for additional information.

### Preferred Stock Dividends and Redemption

In 2014, the Company incurred preferred stock dividends of \$71.9 million, a decrease of \$23.6 million from 2013. Additionally, the benefit from preferred stock redemptions decreased by \$125.7 million in 2014 compared to 2013. The decrease in the dividends and redemption benefit is due to the redemption of preferred stock in 2013. During the third quarter of 2013, the Company redeemed all of its outstanding \$800 million par amount (799,467 shares) of 9.5% Series C preferred stock at 100% of the \$25 per depositary share redemption amount. The redemption reduced preferred stock by the \$926 million carrying value (at the time of redemption) of the Series C preferred stock. The difference from the par amount, or \$125.7 million, related to the intrinsic value of the beneficial conversion feature associated with the convertible subordinated debt. The redemption of the Series C preferred stock had a positive \$0.68 per share impact on the Company’s earnings per share in the third quarter of 2013. The Company did not have any preferred stock redemptions in 2014.

### BUSINESS SEGMENT RESULTS

The Company manages its banking operations and prepares management reports with a primary focus on its subsidiary banks and the geographies in which they operate. As discussed in the “Executive Summary” on page 24, most of the lending and other decisions affecting customers are made at the local level. Each subsidiary bank holds its own banking charter. Those with national bank charters (Zions Bank, Amegy, NBAZ, Vectra, and TCBW) are subject to regulatory oversight by the OCC. Those with state charters (CB&T, NSB, and TCBO) are regulated by the FDIC and applicable state authorities. Effective March 31, 2015, The Commerce Bank of Oregon, originally a stand-alone affiliate of Zions Bancorporation, will operate as a division of The Commerce Bank of Washington. The operating segment identified as “Other” includes the Parent, Zions Management Services Company, certain nonbank financial service subsidiaries, TCBO, and eliminations of transactions between segments.

The accounting policies of the individual segments are the same as those of the Company. The Company allocates the cost of centrally provided services to the business segments based upon estimated or actual usage of those services. Note 21 of the Notes to Consolidated Financial Statements contains selected information from the respective balance sheets and statements of income for all segments.

During 2014, the Company’s subsidiary banks experienced improved financial performance. Common areas of financial performance experienced at various levels of the segments include:

- increased loan balances, primarily at Amegy;
- credit quality improvements across all metrics resulted in reductions of the ALLL, with the exception of energy-related exposures; and
- increased growth in customer deposit balances.



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## Schedule 8

## SELECTED SEGMENT INFORMATION

(Amounts in millions)	Zions Bank			Amegy			CB&T			
	2014	2013	2012	2014	2013	2012	2014	2013	2012	
<b>KEY FINANCIAL INFORMATION</b>										
Total assets	\$19,079	\$18,590	\$17,930	\$13,929	\$13,705	\$13,119	\$11,340	\$10,923	\$11,069	
Total deposits	16,633	16,257	15,575	11,447	11,198	10,706	9,707	9,327	9,483	
Net income (loss) applicable to controlling interests	220.4	224.6	189.3	93.9	130.5	166.7	101.3	140.1	127.1	
Net interest margin	3.40	%3.55	%4.04	% 3.09	%3.23	%3.44	% 4.05	%4.73	% 4.71	%
<b>RISK-BASED CAPITAL RATIOS</b>										
Tier 1 leverage	10.52	%10.02	%10.58	% 11.79	%12.09	%12.03	% 10.78	%10.75	%10.37	%
Tier 1 risk-based capital	14.07	%13.32	%12.96	% 12.83	%13.61	%13.91	% 13.00	%12.40	%12.92	%
Total risk-based capital	15.27	%14.52	%14.17	% 14.09	%14.86	%15.17	% 14.18	%13.65	%14.18	%
<b>CREDIT QUALITY</b>										
Provision for loan losses	\$(58.5 )	\$(40.5 )	\$88.3	\$32.2	\$4.2	\$(63.9 )	\$(20.1 )	\$(16.7 )	\$(7.9 )	
Net loan and lease charge-offs	13.0	19.7	74.4	22.8	23.8	4.6	5.5	(4.1 )	19.8	
Ratio of net charge-offs to average loans and leases	0.11	%0.16	%0.60	% 0.24	%0.27	%0.06	% 0.06	%(0.05 )	%0.24	%
Allowance for loan losses	\$219	\$290	\$350	\$154	\$144	\$164	\$96	\$123	\$146	
Ratio of allowance for loan losses to net loans and leases, at year-end	1.78	%2.37	%2.80	% 1.53	%1.57	%1.94	% 1.13	%1.43	%1.77	%
Nonperforming lending-related assets	\$82.6	\$143.7	\$259.0	\$78.8	\$79.9	\$138.8	\$88.7	\$109.9	\$150.7	
Ratio of nonperforming lending-related assets to net loans and leases and	0.67	%1.16	%2.05	% 0.78	%0.86	%1.63	% 1.04	%1.28	%1.82	%

other real estate  
owned

Accruing loans

past due 90 days or more	\$2.2	\$2.0	\$2.6	\$1.7	\$0.3	\$3.4	\$24.7	\$36.9	\$54.2
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Ratio of accruing

loan past due 90

days or more to net loans and leases	0.02	%0.02	%0.02	% 0.02	%—	%0.04	% 0.29	%0.43	%0.66	%
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(Amounts in millions)	NBAZ 2014	2013	2012	NSB 2014	2013	2012	Vectra 2014	2013	2012	TCBW 2014	2013	2012
<b>KEY FINANCIAL INFORMATION</b>												
Total assets	\$4,771	\$4,579	\$4,575	\$4,096	\$3,980	\$4,061	\$2,999	\$2,571	\$2,511	\$892	\$943	\$961
Total deposits	4,133	3,931	3,874	3,690	3,590	3,604	2,591	2,178	2,164	752	793	791
Net income (loss) applicable to controlling interests	46.5	43.9	30.9	22.3	18.8	21.8	21.4	21.4	18.9	1.2	7.7	7.9
Net interest margin	3.67	%3.76	%4.00	%2.95	%2.99	%3.19	%3.99	%4.26	%4.82	%3.39	%3.24	%3.25
<b>RISK-BASED CAPITAL RATIOS</b>												
Tier 1 leverage	11.84	%11.54	%12.12	%9.02	%8.86	%10.30	%11.77	%12.02	%11.52	%10.31	%10.23	%9.39
Tier 1 risk-based capital	13.98	%13.33	%14.53	%15.51	%15.10	%18.94	%13.76	%13.02	%12.32	%11.79	%12.90	%12.30
Total risk-based capital	15.24	%14.59	%15.79	%16.78	%16.38	%20.22	%15.01	%14.28	%13.58	%13.04	%14.15	%13.50
<b>CREDIT QUALITY</b>												
Provision for loan losses	\$(21.5)	\$(15.0)	\$(0.6)	\$(20.9)	\$(12.0)	\$(9.6)	\$(8.4)	\$(4.9)	\$7.0	\$(0.6)	\$(1.8)	\$0.4
Net loan and lease charge-offs	0.4	6.2	14.0	0.2	3.1	29.8	0.9	2.5	9.1	(0.7)	0.7	2.7
Ratio of net charge-offs to average loans and leases	0.01	%0.17	%0.41	%0.01	%0.14	%1.38	%0.04	%0.12	%0.45	%(0.11)	%0.12	%0.48
Allowance for loan losses	\$40	\$62	\$83	\$54	\$75	\$90	\$32	\$42	\$49	\$9	\$9	\$12
Ratio of allowance for loan losses to net loans and leases, at year-end	1.07	%1.67	%2.31	%2.22	%3.25	%4.30	%1.39	%1.83	%2.30	%1.40	%1.46	%2.06
Nonperforming lending-related assets	\$28.8	\$49.1	\$70.9	\$21.2	\$29.5	\$73.1	\$19.1	\$34.4	\$42.3	\$6.4	\$5.4	\$10.7
Ratio of nonperforming lending-related	0.77	%1.31	%1.94	%0.88	%1.28	%3.47	%0.82	%1.50	%1.93	%0.97	%0.85	%1.88

assets to net  
loans and  
leases and other  
real estate  
owned

Accruing loans

past due 90	\$0.1	\$0.1	\$0.6	\$0.5	\$0.7	\$0.9	\$—	\$0.3	\$—	\$—	\$—	\$—
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days or more

Ratio of

accruing loans

past due 90	—	%—	%0.02	% 0.02	%0.03	%0.04	% —	%0.01	%—	% —	%—	%—
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days or more to

net loans and

leases

The above amounts do not include intercompany eliminations.

#### Zions First National Bank

Zions Bank is headquartered in Salt Lake City, Utah and is primarily responsible for conducting the Company's operations in Utah and Idaho. Zions Bank is the 2<sup>nd</sup> largest full-service commercial bank in Utah and the 4<sup>th</sup> largest in Idaho, as measured by domestic deposits in these states. Zions Bank conducts the largest portion of the Company's Capital Markets operations, which include Zions Direct, Inc., fixed income securities trading, correspondent banking, public finance, and trust and investment advisory services.

Within Zions Bank, the National Real Estate Group is a wholesale business that generally sources loans from other community banks across the country. Such loans are generally low loan-to-value owner-occupied loans, but also include non-owner occupied term commercial real estate loans.

Zions Bank net income decreased by \$4.2 million, or 1.9%, during 2014. The loan portfolio decreased by \$8 million during 2014, which consisted of a \$371 million decline in commercial real estate loans, partially offset by a \$129 million increase in consumer loans and a \$234 million increase in commercial loans. The decline in commercial real estate loans was mainly the result of a reduction in the National Real Estate construction and term loan portfolios. Nonperforming lending-related assets decreased 42.5% from the prior year due to extensive efforts to work out problem loans and to sell OREO properties. Additionally, the higher credit quality of loans originated since the beginning of the financial crisis also contributed to the improved credit quality of the portfolio. Total deposits at

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December 31, 2014 were 2.3% higher than at December 31, 2013. The net interest margin in 2014 decreased to 3.40% from 3.55% in 2013.

### Amegy Corporation

Amegy is headquartered in Houston, Texas and operates Amegy Bank, Amegy Mortgage Company, Amegy Investments, and Amegy Insurance Agency. Amegy Bank is the 7<sup>th</sup> largest full-service commercial bank in Texas as measured by domestic deposits in the state.

Amegy net income decreased by \$36.6 million, or 28.0%, in 2014. The decline in net income is mainly due to a \$28.0 million increase in the provision for loan losses, primarily for its energy-related loans. See Schedule 22 and discussion of the Company's energy-related exposure on page 65 for more information. Over the past two years, Amegy has been able to achieve significant loan portfolio growth; \$859 million in 2014 and \$767 million in 2013. During 2014, commercial loans increased by \$259 million, consumer loans by \$360 million, and commercial real estate loans increased by \$240 million. The credit quality of Amegy's loan portfolio improved during 2014, and the ratio of allowance for loan losses to net loans and leases decreased to 1.53% at December 31, 2014 from 1.57% a year earlier. During 2014, nonperforming lending-related assets decreased by 1.4%. Deposits increased by 2.2% from 2013 to 2014. The net interest margin for Amegy in 2014 decreased to 3.09% from 3.23% in 2013.

### California Bank & Trust

California Bank & Trust is the 16<sup>th</sup> largest full-service commercial bank in California as measured by domestic deposits. Its core business is built on relationship banking by providing commercial, real estate and consumer lending, depository services, international banking, cash management, and community development services.

CB&T's net income decreased by \$38.8 million, or 27.7%, in 2014 due primarily to losses on sales of CDOs in 2014, a one-time gain on sale of branches in 2013 and net interest margin compression, offset partially by a decrease in noninterest expenses. CB&T's loan portfolio decreased by \$44 million in 2014 from the prior year. During 2014, consumer loans grew by \$32 million, while commercial real estate loans declined by \$74 million. The credit quality of CB&T's loan portfolio continues to improve, and the ratio of allowance for loan losses to net loans and leases declined to 1.13% at December 31, 2014 from 1.43% a year earlier. Deposits at December 31, 2014 were \$380 million, or 4.07%, higher than at December 31, 2013. CB&T's net interest margin for 2014 decreased to 4.05% from 4.73% in 2013.

### National Bank of Arizona

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

NBAZ had net income of \$46.5 million in 2014, a \$2.6 million, or 5.9% increase from 2013. During 2014, the loan portfolio increased by \$26 million, including a \$56 million increase in commercial loans, partially offset by a \$30 million decline in commercial real estate loans. The credit quality of NBAZ's loan portfolio continues to improve, and the ratio of allowance for loan losses to net loans and leases declined to 1.07% at December 31, 2014 from 1.67% a year earlier. Deposits at December 31, 2014 were 5.14% higher than a year earlier. The net interest margin for 2014 was 3.67% compared to 3.76% in 2013.

### Nevada State Bank

Nevada State Bank is the 5<sup>th</sup> largest full-service commercial bank in Nevada as measured by domestic deposits in the state. NSB focuses on serving small and mid-sized businesses as well as retail consumers, with an emphasis in relationship banking.

In 2014, NSB had net income of \$22.3 million, compared to \$18.8 million in 2013. NSB's loans grew by \$125 million during 2014, including a \$136 million increase in consumer loans, offset by a \$14 million decline in

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commercial real estate loans. The credit quality of NSB's loan portfolio improved significantly, and the ratio of allowance for loan losses to net loans and leases was 2.22% and 3.25% at December 31, 2014 and 2013, respectively. Net loan and lease charge-offs in 2014 declined to \$0.2 million from \$3.1 million in 2013, and nonperforming lending-related assets declined 28.1%. Deposits at December 31, 2014 were 2.79% higher than a year earlier. The net interest margin for NSB in 2014 decreased slightly to 2.95% from 2.99% in 2013.

### Vectra Bank Colorado

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

In 2014, Vectra's net income remained unchanged from \$21.4 million in 2013. During 2014, total loans increased by \$42 million, including a \$61 million increase in consumer loans, a \$40 million increase in commercial loans, offset by a \$59 million decrease in commercial real estate loans. The credit quality of Vectra's loan portfolio continued to improve, and the ratio of allowance for loan losses to net loans and leases decreased to 1.39% at December 31, 2014 from 1.83% a year earlier. Deposits at December 31, 2014 were 18.97% higher than a year earlier. The net interest margin for Vectra in 2014 decreased to 3.99% from 4.26% in 2013.

### The Commerce Bank of Washington

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

TCBW net income for 2014 was \$1.2 million compared to \$7.7 million in 2013. The loan portfolio increased by \$32 million, including a \$27 million increase in commercial real estate loans, and a \$5 million increase in consumer loans. Nonperforming lending-related assets increased \$1.0 million, and the ratio of allowance for loan losses slightly decreased from 1.46% to 1.40% in 2014. Deposits at December 31, 2014 were 5.17% lower than a year earlier. The net interest margin for TCBW increased from 3.24% in 2013 to 3.39% in 2014.

TCBW's results were adversely affected by an \$11 million increase in litigation reserves relating to claims brought against TCBW in connection with a customer, Frederick Berg, and a number of associated investment funds using the "Meridian" brand name. These claims were settled in February 2015, as discussed in further detail in Note 17 of the Notes to Consolidated Financial Statements.

### Other Segment

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

Significant changes in 2014 compared to 2013 include (1) a \$68 million decrease in noninterest expense primarily due to repurchases, tender offers and redemptions of long-term debt, and (2) a \$154 million decrease in net impairment losses on investment securities, as discussed in "Investment Securities Portfolio" on page 52. Additionally, sales of \$808 million carrying value of CDO securities were done in the Other segment. Significant changes in 2013 compared to 2012 include (1) a \$125 million increase in noninterest expense, and (2) a \$53.7 million increase in net impairment losses on investment securities.





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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.

Schedule 2, which we referred to in our discussion of net interest income, includes the average balances of the Company's interest earning assets, the amount of revenue generated by them, and their respective yields. Another goal is to maintain a higher-yielding mix of interest-earning assets, such as loans, relative to lower-yielding assets, such as money market investments 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, the Company increased its HQLA securities by approximately \$1.0 billion par amount and is continuing these purchases in 2015, which will generate a higher return than that of money market investments.

Average interest-earning assets were \$52.0 billion in 2014 compared to \$51.0 billion in the previous year. Average interest-earning assets as a percentage of total average assets were 93.1% in 2014 and 92.8% in 2013.

Average loans were \$39.5 billion in 2014 and \$38.1 billion in 2013. Average loans as a percentage of total average assets were 70.7% in 2014 compared to 69.4% in 2013.

Average money market investments, consisting of interest-bearing deposits and federal funds sold and security resell agreements, decreased by 7.2% to \$8.2 billion in 2014 compared to \$8.8 billion in 2013. Average securities increased by 6.2% from 2013. Average total deposits increased by 2.1% while average total loans increased by 3.7% in 2014 when compared to 2013. The decrease in average money market investments in 2014 was due in part to excess cash being deployed to fund the loan growth that was stronger than deposit growth, in addition to security purchases and redemptions of long-term debt.

**Chart 5. OUTSTANDING LOANS AND DEPOSITS**  
(at December 31)

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## 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 81 of the MD&A for additional information on management of liquidity and funding management and compliance with Basel III and LCR requirements. Schedule 9 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 detail in Note 20 of the Notes to Consolidated Financial Statements.

## Schedule 9

## INVESTMENT SECURITIES PORTFOLIO

(In millions)	December 31, 2014			December 31, 2013			December 31, 2012		
	Amortized cost	Carrying value	Estimated fair value	Amortized cost	Carrying value	Estimated fair value	Amortized cost	Carrying value	Estimated fair value
Held-to-maturity									
Municipal securities	\$608	\$608	\$620	\$551	\$551	\$558	\$525	\$525	\$537
Asset-backed securities:									
Trust preferred securities – banks and insurance	79	39	57	80	38	51	255	213	126
Other	—	—	—	—	—	—	22	19	12
	687	647	677	631	589	609	802	757	675
Available-for-sale									
U.S. Treasury securities				1	2	2	104	105	105
U.S. Government agencies and corporations:									
Agency securities	607	601	601	518	519	519	109	113	113
Agency guaranteed mortgage-backed securities	935	945	945	309	317	317	407	425	425
Small Business Administration loan-backed securities	1,544	1,552	1,552	1,203	1,221	1,221	1,124	1,153	1,153
Municipal securities	189	189	189	65	66	66	75	76	76
Asset-backed securities:									
Trust preferred securities – banks and insurance	538	415	415	1,508	1,239	1,239	1,596	949	949
Trust preferred securities – real estate investment trusts	—	—	—	23	23	23	41	16	16
Auction rate securities	5	5	5	7	7	7	7	7	7
Other	1	1	1	28	28	28	26	19	19
	3,819	3,708	3,708	3,662	3,422	3,422	3,489	2,863	2,863
Mutual funds and other	137	136	136	287	280	280	228	228	228
	3,956	3,844	3,844	3,949	3,702	3,702	3,717	3,091	3,091
Total	\$4,643	\$4,491	\$4,521	\$4,580	\$4,291	\$4,311	\$4,519	\$3,848	\$3,766

The amortized cost of investment securities on December 31, 2014 increased by 1.4% from the balances on December 31, 2013 primarily due to increases in agency guaranteed mortgage-backed securities, Small Business Administration loan-backed securities, and municipal securities, partially offset by decreased investments in trust preferred and other asset-backed securities, and mutual funds. In 2013, the amortized cost of investment securities also increased by 1.4%, primarily due to increases in agency securities, Small Business Administration loan-backed securities, and mutual funds, partially offset by decreased investments in trust preferred and other asset-backed securities, U.S. Treasury securities, and agency guaranteed mortgage-backed securities.

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The CDO securities sold during 2014 consisted of the following:

## Schedule 10

## CDO SECURITIES SOLD IN 2014

(Amounts in millions)	Par value	Amortized cost	Carrying value	Sales proceeds	Gain (loss) realized
<b>Performing CDOs</b>					
Predominantly bank CDOs	\$160	\$128	\$119	\$123	\$(5 )
Insurance CDOs	398	381	316	341	(40 )
Other CDOs	43	26	26	28	2
Total performing CDOs	601	535	461	492	(43 )
<b>Nonperforming CDOs <sup>1</sup></b>					
Credit impairment prior to last 12 months	507	275	257	297	22
Credit impairment during last 12 months	258	103	90	119	16
Total nonperforming CDOs	765	378	347	416	38
Total	\$1,366	\$913	\$808	\$908	\$(5 )

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

During 2014, the Company realized \$5 million of losses on sales of CDO securities. The losses represent the difference between the amortized cost and the sales proceeds at the time of sale. Depending upon the sales price, previously unrealized holding gains/losses recognized in OCI may be reclassified to earnings or act to reduce remaining unrealized gains/losses in the portfolio. Sales and payoffs eliminated the Company’s holdings of CDOs comprised of solely insurance companies during 2014. At December 31, 2014, the CDO portfolio consisted of CDOs backed primarily by bank collateral.

As of December 31, 2014, 2.7% of the \$3.8 billion fair value of available-for-sale (“AFS”) securities portfolio was valued at Level 1, 86.8% was valued at Level 2, and 10.5% was valued at Level 3 under the GAAP fair value accounting valuation hierarchy. At December 31, 2013, 7.0% of the \$3.7 billion fair value of AFS securities portfolio was valued at Level 1, 57.7% was valued at Level 2, and 35.3% was valued at Level 3.

The amortized cost of AFS investment securities valued at Level 3 was \$522 million at December 31, 2014 and the fair value of these securities was \$402 million. The securities valued at Level 3 were comprised of primarily bank trust preferred CDOs and municipal securities. For these Level 3 securities, the net pretax unrealized loss recognized in OCI at December 31, 2014 was \$120 million. As of December 31, 2014, we believe we will receive on settlement or maturity at least the amortized cost amounts of the Level 3 AFS securities. This expectation applies to both those securities for which OTTI has been recognized and those for which no OTTI has been recognized.

Estimated fair value determined under ASC 820 precludes the use of “blockage factors” or liquidity adjustments due to the quantity of securities held by the Company. 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, 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 20 of the Notes to Consolidated Financial Statements for more information.



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

## Schedule 11

## CDOs BY PERFORMANCE STATUS

(Dollar amounts in millions)	December 31, 2014					Net unrealized losses recognized in AOCI <sup>1</sup>	Weighted average discount rate <sup>2</sup>	% of carrying value to par		Change
	No. of tranches	Par amount	Amortized cost	Carrying value	December 31, 2014			2013		
Performing CDOs										
Predominantly bank CDOs	17	\$443	\$420	\$325	\$(95)	3.6%	73%	73%	—%	
Insurance-only CDOs	—	—	—	—	—	—	—	80	(80)	)
Other CDOs	—	—	—	—	—	—	—	60	(60)	)
Total performing CDOs	17	443	420	325	(95)	3.6%	73	75	(2)	)
Nonperforming CDOs <sup>3</sup>										
CDOs credit impaired prior to last 12 months	12	279	172	107	(65)	4.9%	38	46	(8)	)
CDOs credit impaired during last 12 months	1	1	—	—	—	3.4%	—	33	(33)	)
Total nonperforming CDOs	13	280	172	107	(65)	4.9%	38	41	(3)	)
Total CDOs	30	\$723	\$592	\$432	\$(160)	4.0%	60	59	1	
December 31, 2013										
(Dollar amounts in millions)	No. of tranches	Par amount	Amortized cost	Carrying value	Net unrealized losses recognized in AOCI <sup>1</sup>	Weighted average discount rate <sup>2</sup>	% of carrying value to par		Change	
							December 31, 2013	2012		
Performing CDOs										
Predominantly bank CDOs	23	\$687	\$617	\$499	\$(118)	5.6%	73%	66%	7%	)
Insurance-only CDOs	22	433	413	346	(67)	4.9%	80	72	8	
Other CDOs	3	43	26	26	—	10.6%	60	70	(10)	)
Total performing CDOs	48	1,163	1,056	871	(185)	5.5%	75	68	7	
Nonperforming CDOs <sup>3</sup>										

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CDOs credit impaired prior to last 12 months	32	614	369	285	(84	)	7.0	46	30	16
CDOs credit impaired during last 12 months	23	448	187	147	(40	)	6.5	33	25	8
Total nonperforming CDOs	55	1,062	556	432	(124	)	6.8	41	26	15
Total CDOs	103	\$2,225	\$1,612	\$1,303	\$(309	)	6.1	59	49	10

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

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

<sup>3</sup> Defined as either deferring current interest (“PIKing”) or OTTI; the majority are predominantly bank CDOs.

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We have included selected credit rating information for certain of the investment securities in Schedules 12 and 13 because this information is one indication of the degree of credit risk to which we are exposed, and significant declines in ratings for our investment portfolio could indicate an increased level of risk for the Company. As shown in Schedule 12, CDO securities representing 92.2% of that portfolio's fair value at December 31, 2014 were upgraded by one or more NRSROs during 2014. The Company attributes these upgrades to improvements in over-collateralization ratios and de-leveraging combined with certain less severe rating agency assumptions and methodologies.

## Schedule 12

## BANK TRUST PREFERRED CDOs

(Dollar amounts in millions)	December 31, 2014			
	No. of securities	Par amount	Amortized cost	Fair value
Year-to-date rating changes <sup>1</sup>				
Upgrade	24	\$587	\$542	\$416
No change	6	136	50	35
Downgrade	—	—	—	—
	30	\$723	\$592	\$451

<sup>1</sup> By any NRSRO.

## Bank Collateral Deferral Experience

The Company's loss and recovery experience on defaults as of December 31, 2014 (and our Level 3 modeling assumption) is essentially a 100% loss on defaulted bank collateral in CDOs, although we have, to date, received several, generally small, recoveries on a few defaults. Securities sales during 2014 resulted in the Company reducing its exposure to some unresolved deferring banks. At December 31, 2014, the Company had exposure to 43 deferring issuers of which 32 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; 157 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 43 banks that are currently deferring. Further information on the Company's valuation process is detailed in Note 20 of the Notes to Consolidated Financial Statements.

Schedule 13 provides additional information on the below-investment-grade rated bank trust preferred CDOs' portions of the AFS and HTM portfolios. The schedules reflect data and assumptions that are included in the calculations of fair value and OTTI. The schedules utilize the lowest rating assigned by any rating agency to identify those securities below investment grade. The schedules segment the securities by whether or not they have been determined to have credit-related OTTI, and by original ratings level to provide granularity on the seniority level of the securities and the distribution of unrealized losses.



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## Schedule 13

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

At December 31, 2014

(Dollar amounts in millions)	Number of securities	% of portfolio	Total		Amortized cost	Estimated fair value	Unrealized gain (loss)	Credit OTTI loss		Valuation losses <sup>1</sup>
			Par value					Current year	Life-to-date	Life-to-date
Original ratings of securities, no credit OTTI recognized:										
Original AAA	12	53.5	%	\$328	\$309	\$239	\$(70)	\$—	\$—	\$(31)
Original A	1	1.1		7	7	6	(1)	—	—	—
Total Non-OTTI		54.6		335	316	245	(71)	—	—	(31)
Original ratings of securities, credit OTTI recognized:										
Original AAA	1	8.1		50	43	29	(14)	—	(5)	(2)
Original A	11	33.2		204	128	97	(31)	—	(75)	—
Original BBB	1	4.1		25	—	—	—	—	(25)	—
Total OTTI		45.4		279	171	126	(45)	—	(105)	(2)
Total below-investment-grade bank and insurance CDOs		100.0	%	\$614	\$487	\$371	\$(116)	\$—	\$(105)	\$(33)

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

## Significant Assumption Changes for 2014

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 incorporated these observations into the process used to estimate fair value. Trade information included sales of CDO securities by the Company and by third parties.

After observing slower prepayment rates in the latter half of 2014, we reduced our prepayment rate assumption. Effective at year-end 2014, we assumed all CDO collateral would prepay at a 2% annual prepayment rate through maturity. This differed from our third quarter prepayment rate assumption which assumed that small banks would prepay at a 3% annual prepayment rate through maturity and that larger investment grade-rated issuing banks facing the phased-in disallowance of certain trust preferred securities as Tier 1 capital would fully prepay by year-end 2015. In the fourth quarter of 2014, we observed no prepayments of big bank collateral remaining within our pools. Decreased prepayment rates are generally adverse to the fair value of the most senior tranches and favorable to the fair value of the more junior tranches.

## Valuation Sensitivity of Level 3 Bank CDOs

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

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## Schedule 14

## SENSITIVITY OF INTERNAL MODEL

(Amounts in millions)

	Held-to-maturity		Available-for-sale			
Fair value at December 31, 2014	\$57		\$393			
	Incremental	Cumulative	Incremental	Cumulative	Incremental	Cumulative
Currently Modeled Assumptions						
Expected collateral credit losses <sup>1</sup>						
Loss percentage from currently defaulted or deferring collateral <sup>2</sup>		15.9 %			26.1 %	
Projected loss percentage from currently performing collateral						
1-year	0.3 %	16.2 %	0.2 %	26.3 %		
years 2-5	1.9 %	18.2 %	1.8 %	28.2 %		
years 6-maturity	12.0 %	30.1 %	10.4 %	38.6 %		
Discount rate <sup>3</sup>						
Weighted average spread over LIBOR	497	bps			385	bps
Sensitivity of Modeled Assumptions						
Increase (decrease) in fair value due to increase in projected loss percentage from currently performing collateral <sup>4</sup>						
	25%	\$(0.5 )			\$(1.2 )	
	50%	(1.4 )			(2.2 )	
	100%	(4.0 )			(4.1 )	
Increase (decrease) in fair value due to increase in projected loss percentage from currently performing collateral <sup>4</sup> and the immediate default of all deferring collateral with no recovery						
	25%	\$(0.9 )			\$(3.0 )	
	50%	(2.2 )			(4.1 )	
	100%	(4.7 )			(6.1 )	
Increase (decrease) in fair value due to increase in discount rate						
	+100 bps	\$(6.2 )			\$(38.2 )	
	+200 bps	(11.6 )			(71.2 )	
Increase (decrease) in fair value due to increase in forward LIBOR curve						
	+100 bps	\$—			\$—	
Increase (decrease) in fair value due to:						
increase in prepayment assumption <sup>5</sup>	+1%	\$(0.1 )			\$13.6	
increase in prepayment assumption <sup>6</sup>	+2%	0.2			25.7	

<sup>1</sup> The Company uses an incurred credit loss model which specifies cumulative losses at the 1-year, 5-year, and 30-year points from the date of valuation. These current and projected losses are reflected in the CDO's fair value.

<sup>2</sup> Weighted average percentage of collateral that is defaulted due to bank failures, or deferring payment as allowed under the terms of the security, including a 0% recovery rate on defaulted collateral and a credit-specific probability of default on deferring collateral which ranges from 2.18% to 100%.

<sup>3</sup> The discount rate is a spread over the forward LIBOR curve at the date of valuation.

<sup>4</sup> Percentage increase is applied to incremental projected loss percentages from currently performing collateral. For example, the 50% and 100% stress scenarios for AFS securities would result in cumulative 30-year losses of 44.8% = 38.6%+50% (0.2%+1.8%+10.4%) and 51.0% = 38.6%+100% (0.2%+1.8%+10.4%), respectively.

<sup>5</sup> Prepayment rate increased to 3% per year through maturity.

<sup>6</sup> Prepayment rate increased to 4% per year through maturity.

During 2014, the market level discount rates applicable to bank CDOs declined substantially and fair values rose. The discount rate, or credit spread, in the above 2014 sensitivity analysis of valuation assumptions is approximately 166 bps lower than that used in 2013. Trade data supported the extent of fair value increases through the year. In addition, the AFS portfolio's fair value exhibited much less sensitivity to loss assumptions on performing collateral than was the case in 2013. This is due to the Company's sales of the junior priority AFS securities during 2014.

Schedule 15 presents the maturities of the different types of investments that the Company owned and the corresponding average yield as of December 31, 2014 based on amortized cost. Expected maturities, rather than contractual maturities, are shown for trust preferred CDOs, SBA securities, agency guaranteed mortgage-backed securities and certain agency and municipal securities. See "Liquidity Risk Management" on page 81 and Notes 1, 5 and 7 of the Notes to Consolidated Financial Statements for additional information about the Company's investment securities and their management.

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## Schedule 15

## MATURITIES AND AVERAGE YIELDS ON SECURITIES

At December 31, 2014

(Amounts in millions)	Total securities		Within one year			After one but within five years			After five but within ten years			After ten years	
	Amount	Yield*	Amount	Yield*		Amount	Yield*		Amount	Yield*	Amount	Yield*	
Held-to-maturity													
Municipal securities	\$608	5.1 %	\$97	5.1 %		\$196	3.8 %		\$153	5.6 %	\$162	6.2 %	
Asset-backed securities:													
Trust preferred securities – banks and insurance	79	2.4	—	—		1	2.6		1	2.6	77	2.4	
	687	4.8	97	5.1		197	3.8		154	5.6	239	5.0	
Available-for-sale													
U.S. Treasury securities	—		—			—			—		—		
U.S. Government agencies and corporations:													
Agency securities	607	1.8	75	1.8		239	1.8		157	1.9	136	1.8	
Agency guaranteed mortgage-backed securities	935	2.5	134	2.5		369	2.5		312	2.3	120	2.8	
Small Business Administration loan-backed securities	1,544	2.0	309	2.0		742	2.0		342	2.0	151	2.0	
Municipal securities	189	2.8	15	0.9		94	2.7		59	3.4	21	3.3	
Asset-backed securities:													
Trust preferred securities – banks and insurance	538	2.1	12	2.0		36	1.8		45	1.8	445	2.1	
Trust preferred securities – real estate investment trusts	—		—			—			—		—		
Auction rate securities	5	1.0	—			—			—		5	1.0	
Other	1	2.6	—			—			1	2.6	—		
	3,819	2.2	545	2.1		1,480	2.2		916	2.2	878	2.2	
Mutual funds and other	137	1.0	137	1.0		—			—		—		
	3,956	2.1	682	1.9		1,480	2.2		916	2.2	878	2.2	
Total	\$4,643	2.5	\$779	2.3		\$1,677	2.3		\$1,070	2.7	\$1,117	2.8	

\*Taxable-equivalent rates used where applicable.

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

We review investments in debt securities each quarter for the presence of OTTI. For securities for which an internal income-based cash flow model or third party valuation service produces a loss-adjusted expected cash flow for the

security, the presence of OTTI is identified and the amount of the credit component of OTTI is calculated by discounting this loss-adjusted cash flow at the security-specific effective interest rate and comparing that value to the Company's amortized cost of the security.

We review the relevant facts and circumstances each quarter 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 December 31, 2014, for each AFS security whose fair value was below amortized cost, we have determined that we did not intend 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 2014, the Company recognized an immaterial amount of OTTI on CDOs, compared to \$165.1 million in 2013. For some CDO tranches that we do not intend to sell, which have previously recorded OTTI, the expected future cash flows have remained stable or have slightly improved subsequent to the quarter that OTTI was identified and recorded. For other CDO tranches, an adverse change in the expected future cash flows has resulted in the

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recording of additional OTTI. In both situations, while a difference may remain between fair value and amortized cost, the difference is not due to credit and the expected future cash flows substantiate the return of the full amortized cost of the CDO tranches. We utilize a present value technique to both identify the OTTI existing in the CDO tranches and to estimate fair value. The primary drivers of unrealized losses in these CDOs are further discussed in Note 5 of the Notes to Consolidated Financial Statements.

In 2013, as a result of the Volcker Rule, IFR, and the Company's decision to reduce its risk profile, the Company changed its intent with respect to the holding period of certain AFS securities, including some securities that were formerly HTM. The result was a pretax securities impairment charge of \$137 million on these securities.

Approximately one third of the charge relates to securities that the Company determined to sell during the first quarter of 2014, and which the Volcker Rule and the IFR at the time the decision was made, precluded the Company from holding beyond July 21, 2015, by which time the Company did not expect to have recovered its amortized cost. That deadline has since been extended to July 21, 2016 and the Federal Reserve has announced its intention to grant an additional one-year extension to July 21, 2017. The remaining two thirds of the charge relates to securities that the Company determined to sell during the first quarter of 2014 despite each being allowable under the Volcker Rule and the IFR.

Additionally, credit-related impairment of \$5 million was identified in the fourth quarter of 2013 in securities that we did not intend to sell. 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.

Schedule 16 summarizes the Company's exposure to state and local municipalities.

#### Schedule 16

##### MUNICIPALITIES

(In millions)	December 31,	
	2014	2013
Loans and leases	\$521	\$449
Held-to-maturity – municipal securities	608	551
Available-for-sale – municipal securities	189	66
Available-for-sale – auction rate securities	5	7
Trading account – municipal securities	53	27
Unused commitments to extend credit	58	17
Total direct exposure to municipalities	\$1,434	\$1,117

At December 31, 2014, \$1.1 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. Of the AFS municipal securities, 99% of the total portfolio on a fair value basis are rated by major credit rating agencies and

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were rated investment grade as of December 31, 2014. 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 canceled its Total Return Swap (“TRS”) with Deutsche Bank AG (“DB”) effective April 28, 2014 due to the removal, mostly through sale, of over half of the CDOs originally covered by the TRS. See “Noninterest Income” on page 41 and Note 7 of the Notes to Consolidated Financial Statements for additional information. Following the cancellation, the TRS derivative liability was extinguished and the Company’s regulatory risk weighted assets increased by approximately \$0.9 billion. 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 \$144 million and \$43 million at December 31, 2014 and 2013, respectively.

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 at December 31, 2014 and 2013 were \$0.3 billion and \$2.0 billion, respectively. The decrease is due to the closing of the Zions Bank branch. Foreign deposits are related to domestic customers of our subsidiary banks.

### Loans Held for Sale

Loans held for sale, consisting primarily of consumer mortgage and small business loans to be sold in the secondary market, were \$133 million at December 31, 2014, compared to \$171 million at December 31, 2013. Consumer loans are primarily fixed rate mortgages that are originated and sold to third parties.

### Loan Portfolio

As of December 31, 2014, net loans and leases accounted for 70.0% of total assets compared to 69.7% at the end of 2013. Schedule 17 presents the Company’s loans outstanding by type of loan as of the five most recent year-ends. The schedule also includes a maturity profile for the loans that were outstanding as of December 31, 2014. However, while this schedule reflects the contractual maturity and repricing characteristics of these loans, in a small number of cases, the Company has hedged the repricing characteristics of its variable-rate loans as more fully described in “Interest Rate Risk” on page 77.



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## Schedule 17

## LOAN PORTFOLIO BY TYPE AND MATURITY

(In millions)	December 31, 2014			Total	December 31,			
	One year or less	One year through five years	Over five years		2013	2012	2011	2010
<b>Commercial:</b>								
Commercial and industrial	\$7,355	\$4,599	\$1,209	\$13,163	\$12,459	\$11,215	\$10,422	\$9,152
Leasing	35	296	78	409	388	422	380	365
Owner occupied	448	1,353	5,550	7,351	7,568	7,781	8,394	8,500
Municipal	27	101	393	521	449	494	441	438
Total commercial	7,865	6,349	7,230	21,444	20,864	19,912	19,637	18,455
<b>Commercial real estate:</b>								
Construction and land development	806	1,108	72	1,986	2,193	1,969	2,315	3,679
Term	1,434	3,115	3,578	8,127	8,203	8,362	8,310	8,084
Total commercial real estate	2,240	4,223	3,650	10,113	10,396	10,331	10,625	11,763
<b>Consumer:</b>								
Home equity credit line	50	52	2,219	2,321	2,147	2,197	2,210	2,172
1-4 family residential	12	151	5,038	5,201	4,742	4,358	3,933	3,518
Construction and other consumer real estate	205	10	156	371	325	322	306	346
Bankcard and other revolving plans	266	17	118	401	361	312	298	307
Other	25	165	23	213	208	233	249	269
Total consumer	558	395	7,554	8,507	7,783	7,422	6,996	6,612
Total net loans	\$10,663	\$10,967	\$18,434	\$40,064	\$39,043	\$37,665	\$37,258	\$36,830
<b>Loans maturing:</b>								
With fixed interest rates	\$1,540	\$3,851	\$3,233	\$8,624				
With variable interest rates	9,123	7,116	15,201	31,440				
Total	\$10,663	\$10,967	\$18,434	\$40,064				

As of December 31, 2014, net loans and leases were \$40.1 billion, reflecting a 2.6% increase from the prior year. 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 2014 occurred in commercial and industrial, 1-4 family residential, and home equity credit line loans. The impact of these increases was partially offset by declines in commercial owner occupied, and commercial real estate construction loans. The loan portfolio increased primarily at Amegy, NSB, and Vectra, while balances declined at CB&T and Zions Bank.

Of the significant increases and decreases within the portfolio, commercial and industrial loans increased more than \$700 million, due in part to an increase in loan production, and 1-4 family residential loans increased more than \$450 million, primarily due to the purchase of \$249 million par amount of high quality jumbo ARM loans from another bank.

Commercial owner occupied loans declined more than \$200 million 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.

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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.

Loans serviced for the benefit of others remained unchanged at \$2.7 billion during 2014 and 2013.

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 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

Schedule 18 sets forth the Company's other noninterest-bearing investments.

Schedule 18

## OTHER NONINTEREST-BEARING INVESTMENTS

(In millions)	December 31,	
	2014	2013
Bank-owned life insurance	\$476	\$466
Federal Home Loan Bank stock	104	105
Federal Reserve stock	121	121
SBIC investments	86	61
Non-SBIC investment funds and other	74	98
Trust preferred securities	5	5
	\$866	\$856

## Deposits

Deposits, both interest-bearing and noninterest-bearing, are a primary source of funding for the Company. Average total deposits increased by 2.1% during 2014, with average interest-bearing deposits decreasing by 2.5% and average noninterest-bearing deposits increasing 9.1%. The average interest rate paid for interest-bearing deposits was 3 bps lower in 2014 than in 2013.

Core deposits at December 31, 2014, which exclude time deposits larger than \$100,000 and brokered deposits, increased by 3.4%, or \$1.5 billion, from December 31, 2013. The increase was mainly due to increases in noninterest-bearing and interest-bearing demand deposits, savings accounts, and a marginal increase in money market accounts partially offset by foreign deposits and time deposits. The increases in noninterest-bearing demand deposits resulted primarily from increased balances in accounts of existing customers.

Demand and savings and money market deposits comprised 94.3% of total deposits at December 31, 2014, compared with 90.1% at December 31, 2013.

During 2014 and 2013, the Company maintained a relatively low level of brokered deposits with the primary purpose of keeping that funding source available in case of a future need. At December 31, 2014, total deposits included \$108 million of brokered deposits compared to \$29 million at December 31, 2013.

See Notes 11 and 12 of the Notes to Consolidated Financial Statements and "Liquidity Risk Management" on page 81 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. We apply various strategies to reduce the risks to which the Company's operations are exposed, including credit, interest rate and market, liquidity, and operational risks.

#### Credit Risk Management

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

Centralized oversight of credit risk is provided through credit policies, credit administration, and credit examination functions at the Parent. We have structured the organization to separate the lending function from the credit administration function, which has added strength to the control over, and the independent evaluation of, credit activities. Formal loan policies and procedures provide the Company with a framework for consistent underwriting and a basis for sound credit decisions at the local affiliate 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, and reports thereon are submitted to management and to the Risk Oversight Committee of the Board of Directors. New, expanded, or modified products and services, as well as new lines of business, are approved by the corporate New Product Review Committee.

Both the credit policy and the credit examination functions are managed centrally. Each 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. These concentration limits, particularly with regard to the various types of CRE and real estate development, are materially lower than they were in 2007 and 2008, just prior to the emergence of the recent economic downturn. 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 improved during 2014. Nonperforming lending-related assets at December 31, 2014 decreased by approximately 28% from December 31, 2013. Gross charge-offs for 2014 declined to \$106 million from \$131 million in 2013. Net charge-offs decreased to \$42 million from \$52 million for the same periods.



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As displayed in Schedule 19, commercial and industrial loans were the largest category and constituted 32.9% of the Company's loan portfolio at December 31, 2014. Construction and land development loans slightly decreased to 5.0% of total loans at December 31, 2014, compared to 5.6% at December 31, 2013; however, they have declined significantly from a pre-recession level of 20.1% of total loans at the end of 2007.

## Schedule 19

## LOAN PORTFOLIO DIVERSIFICATION

(Amounts in millions)	December 31, 2014		December 31, 2013		
	Amount	% of total loans	Amount	% of total loans	
Commercial:					
Commercial and industrial	\$13,163	32.9	% \$12,459	31.9	%
Leasing	409	1.0	388	1.0	
Owner occupied	7,351	18.3	7,568	19.4	
Municipal	521	1.3	449	1.2	
Total commercial	21,444	53.5	20,864	53.5	
Commercial real estate:					
Construction and land development	1,986	5.0	2,193	5.6	
Term	8,127	20.3	8,203	21.0	
Total commercial real estate	10,113	25.3	10,396	26.6	
Consumer:					
Home equity credit line	2,321	5.8	2,147	5.5	
1-4 family residential	5,201	13.0	4,742	12.1	
Construction and other consumer real estate	371	0.9	325	0.8	
Bankcard and other revolving plans	401	1.0	361	0.9	
Other	213	0.5	208	0.6	
Total consumer	8,507	21.2	7,783	19.9	
Total net loans	\$40,064	100.0	% \$39,043	100.0	%

## Government Agency Guaranteed Loans

The Company participates in various guaranteed lending programs sponsored by U.S. government agencies, such as the Small Business Administration, Federal Housing Authority, Veterans' Administration, Export-Import Bank of the U.S., and the U.S. Department of Agriculture. As of December 31, 2014, the principal balance of these loans was \$563 million, and the guaranteed portion was approximately \$430 million. Most of these loans were guaranteed by the Small Business Administration.

Schedule 20 presents the composition of government agency guaranteed loans.

## Schedule 20

## GOVERNMENT GUARANTEES

(Amounts in millions)	December 31, 2014		December 31, 2013		
	Amount	Percent guaranteed	Amount	Percent guaranteed	
Commercial	\$539	76	% \$563	76	%
Commercial real estate	19	76	18	76	
Consumer	5	100	4	100	
Total loans	\$563	76	\$585	76	
Commercial Lending					

Schedule 21 provides selected information regarding lending concentrations to certain industries in our commercial lending portfolio.

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## Schedule 21

## COMMERCIAL LENDING BY INDUSTRY GROUP

(Amounts in millions)	December 31, 2014			December 31, 2013		
	Amount	Percent		Amount	Percent	
Real estate, rental and leasing	\$2,418	11.4	%	\$2,937	14.1	%
Manufacturing	2,305	10.7		2,181	10.5	
Mining, quarrying and oil and gas extraction	2,277	10.6		2,205	10.6	
Retail trade	1,924	9.0		1,737	8.3	
Wholesale trade	1,638	7.6		1,464	7.0	
Healthcare and social assistance	1,347	6.3		1,211	5.8	
Transportation and warehousing	1,294	6.0		1,074	5.2	
Finance and insurance	1,168	5.5		1,168	5.6	
Construction	1,027	4.8		926	4.4	
Accommodation and food services	911	4.2		799	3.8	
Professional, scientific and technical services	884	4.1		928	4.4	
Other <sup>1</sup>	4,251	19.8		4,234	20.3	
Total	\$21,444	100.0	%	\$20,864	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/gas extraction; manufacturing; and transportation and warehousing; contain certain loans categorized by the Company as energy-related. At December 31, 2014, the Company had approximately \$6.3 billion of total credit energy-related 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 Schedule 22.

## Schedule 22

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

(Amounts in millions)

December 31, 2014

Loans and leases		
Oil and gas-related	\$3,172	
Alternative energy	225	
Total loans and leases	3,397	
Unused commitments to extend credit	2,858	
Total credit exposure	\$6,255	
Private equity investments	\$22	
Distribution of oil and gas-related balances		
Upstream – exploration and production	32	%
Midstream – marketing and transportation	19	
Downstream – refining	2	
Other non-services	2	
Oilfield services	33	
Energy service manufacturing	12	
Total loans and leases	100	%

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Many borrowers operate in multiple businesses. Therefore, judgment has been applied in characterizing a borrower as energy-related, and to a particular segment of energy-related activity, e.g., upstream or downstream.

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As of December 31, 2014, \$17 million (or 0.5%) of the \$3.2 billion outstanding oil and gas energy-related loan balances were nonperforming. The Company's historical energy lending performance has been strong despite significant volatility in both oil and natural gas prices, largely due to the efforts of our highly experienced team of bankers dedicated exclusively to the energy finance sector, conservative underwriting standards, and solid risk management controls and practices. 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 32% of the Company's energy-related exposure as of December 31, 2014. Most 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 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 re-determination based on then-current energy prices, typically every six months. Generally, the Company has, at its option, the right to conduct additional re-determinations during the year. Borrowing bases for clients are usually set at 60-70% of available collateral after an adjustment for the discounts described above.

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 on reserve-based loan commitments was approximately 57% at December 31, 2014. This unused commitment gives us the ability in some cases to reduce the borrowing base commitment through the re-determination 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 Company's risk-based estimated oil production projected in 2015 and 2016, more than 50% is hedged based on weighted average commitments and the latest data provided by the borrowers.

### Midstream

Midstream marketing and transportation loans comprised approximately 19% of the Company's energy-related exposure as of December 31, 2014. Loans in this segment are made to companies that gather, transport, treat and blend oil and natural gas. 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. The majority 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

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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 in Schedule 22, comprised approximately 45% of the Company's energy-related exposure as of December 31, 2014. 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.

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 cyclicity.

### 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 generally avoids making first lien loans to borrowers that employ significant leverage through the use of junior lien loans or large unsecured senior tranches 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.

For efficiency purposes, and to further reduce concentration risk, 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 80% in the upstream portfolio, 77% in the midstream portfolio, and 50% 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. Approximately 45% of our exposure is to public companies and/or to those who have private equity sponsors. 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 fourth quarter of 2014, observed credit quality in the energy-related portfolio, based on most recent borrower financial statements, remained strong and was relatively unchanged from the third quarter. During the fourth quarter of 2014, the Company conducted certain sensitivity analyses, and based on those analyses, subjected certain energy-related credits to further scrutiny resulting in a small number of credit downgrades. The fact that the decline in energy prices has basically taken place within one quarter makes it difficult yet to see measurable changes to the financial condition of many energy-related borrowers, which is a primary driver of individual loan risk grades; such

risk grades, in turn, are a primary driver of the quantitative portion of the allowance for credit losses. Nevertheless, the Company recognizes that some of its energy-related credits likely have incurred losses, assuming

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current levels of oil and gas prices persist. Therefore, it made changes to certain qualitative adjustment factors that had the effect of increasing the allowance for credit losses by approximately \$25 million.

Finally, in addition to re-evaluating certain credits and bolstering the allowance for credit losses in the fourth quarter of 2014, the Company has initiated the process of interim borrowing base re-determinations on a few selected borrowers. This is expected to result in some reduction of the size of the lines of credit available to those borrowers, and may result in some credit downgrades, as borrowers provide updated financial statements and the borrowing bases of exploration and production credits are updated. However, the Company believes it is prudent to take early action for the few selected borrowers and secure additional collateral, reduce commitments, etc., rather than wait for the normal borrowing base re-determination period in the spring of 2015.

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## Commercial Real Estate Loans

Selected information indicative of credit quality regarding our CRE loan portfolio is presented in Schedule 23.

## Schedule 23

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

At December 31, 2014

(Amounts in millions)

Loan type	As of date	Collateral Location										Total	% of total CRE
		Arizona	Northern California	Southern California	Nevada	Colorado	Texas	Utah/Idaho	Wash-in	Other <sup>1</sup>			
<b>Commercial term</b>													
Balance outstanding	12/31/2014	\$1,111	\$626	\$2,172	\$557	\$400	\$1,244	\$1,105	\$255	\$657	\$8,127	80.0	
% of loan type		13.7	% 7.7	% 26.7	% 6.9	% 4.9	% 15.3	% 13.6	% 3.1	% 8.1	% 100.0	%	
<b>Delinquency rates<sup>2</sup>:</b>													
30-89 days	12/31/2014	—	—	0.1	% 0.4	% —	—	0.6	% 0.3	% 0.2	% 0.2	%	
	12/31/2013	0.3	% —	0.2	% 0.7	% —	0.2	% 0.1	% —	0.4	% 0.2	%	
≥ 90 days	12/31/2014	0.1	% —	0.6	% 0.6	% —	0.1	% 0.3	% 0.3	% 1.0	% 0.4	%	
	12/31/2013	—	0.5	% 0.4	% —	—	0.3	% 0.1	% —	0.5	% 0.2	%	
<b>Accruing loans past due 90 days or more</b>													
	12/31/2014	\$—	\$—	\$12	\$4	\$—	\$—	\$3	\$1	\$—	\$20		
	12/31/2013	—	1	19	—	—	—	—	—	—	20		
<b>Nonaccrual loans</b>													
	12/31/2014	2	1	7	1	1	2	1	—	10	25		
	12/31/2013	7	4	13	8	1	7	6	1	14	61		
<b>Residential construction and land development</b>													
Balance outstanding	12/31/2014	\$52	\$27	\$270	\$7	\$45	\$218	\$97	\$17	\$13	\$746	7.4	
% of loan type		7.0	% 3.6	% 36.2	% 0.9	% 6.0	% 29.2	% 13.0	% 2.4	% 1.7	% 100.0	%	
<b>Delinquency rates<sup>2</sup>:</b>													
30-89 days	12/31/2014	—	—	—	—	—	—	—	—	—	—	—	
	12/31/2013	1.0	% —	—	—	0.4	% —	—	—	—	0.1	%	
≥ 90 days	12/31/2014	—	—	—	—	—	2.6	% —	—	—	0.8	%	
	12/31/2013	—	—	0.1	% —	—	3.0	% 0.2	% —	—	0.9	%	
<b>Accruing loans past due 90 days or more</b>													
	12/31/2014	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—		
	12/31/2013	—	—	—	—	—	—	—	—	—	—		
<b>Nonaccrual loans</b>													
	12/31/2014	—	—	—	—	—	7	—	—	—	7		
	12/31/2013	1	—	—	—	—	9	—	—	—	10		
<b>Commercial construction and land development</b>													
Balance outstanding	12/31/2014	\$77	\$42	\$245	\$69	\$95	\$402	\$232	\$19	\$59	\$1,240	12.0	

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% of loan type		6.2	% 3.4	% 19.8	% 5.6	% 7.6	% 32.4	% 18.7	% 1.5	% 4.8	% 100.0	%
Delinquency rates <sup>2</sup> :												
30-89 days	12/31/2014	—	—	0.5	% —	0.1	% 0.2	% 0.1	% —	—	0.2	%
	12/31/2013	0.7	% 0.8	% 0.5	% 4.9	% —	0.3	% —	—	—	0.6	%
≥ 90 days	12/31/2014	—	—	0.9	% —	—	0.9	% —	—	—	0.5	%
	12/31/2013	—	—	—	—	—	1.5	% —	—	—	0.4	%
Accruing loans past due 90 days or more												
	12/31/2014	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	
	12/31/2013	—	—	—	—	—	—	—	—	—	—	
Nonaccrual loans												
	12/31/2014	—	—	2	—	—	4	11	—	—	17	
	12/31/2013	—	1	—	—	—	5	13	—	—	19	
Total construction and land development												
	12/31/2014	\$129	\$69	\$515	\$76	\$140	\$620	\$329	\$36	\$72	\$1,986	
Total commercial real estate												
	12/31/2014	\$1,240	\$695	\$2,687	\$633	\$540	\$1,864	\$1,434	\$291	\$729	\$10,113	100

<sup>1</sup>No other geography exceeds \$83 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 December 31, 2014. For such loans, construction has been completed and the project has stabilized to a level that supports the granting of a mini-perm loan in accordance with our underwriting standards. Mini-perm loans generally have initial maturities of three to seven years. The remaining 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 \$208 million, or 17%, of the commercial construction and land development portfolio at December 31, 2014 consists of acquisition and development loans. Most of these acquisition and development loans are secured by specific retail, apartment, office, or other projects. Underwriting on commercial properties is primarily based on the economic viability of the project with heavy consideration given to the creditworthiness and experience of the sponsor. We generally require that the owner's equity be injected prior to bank advances. 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.

Interest reserves are generally established as a loan disbursement budget item for real estate construction or development loans. We generally require borrowers to inject their equity into the project prior to loan disbursements,

which ensures the availability of equity to complete the project. We monitor the construction, sales and/or leasing progress to determine whether or not the project remains viable. If, at any time during the life of the credit, the project is determined not to be viable (including the adequacy of the remaining interest reserves), the bank takes appropriate action to protect its collateral position via negotiation and/or legal action as deemed

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necessary. At December 31, 2014 and 2013, Zions' affiliates had 656 and 609 loans with an outstanding balance of \$801 million and \$715 million where available interest reserves amounted to \$108 million and \$104 million, respectively. In instances where projects are in default and have been determined not to be viable, the interest reserves and other disbursements have been frozen, as appropriate.

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

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

Additionally, when we modify or extend a loan, we give consideration to whether the borrower is in financial difficulty, and whether 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.



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### 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 December 31, 2014, 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 December 31, 2014, 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 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 35% is scheduled to begin amortizing within the next five years; however, most of the loans are expected to be renewed for a second 10-year period after a satisfactory review of the borrower's credit history and ability to repay the loan. The Company regularly analyzes the risk of borrower default in the event of a loan becoming fully amortizing and the risk of higher interest rates. The 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 5 bps and 23 bps for 2014 and 2013, respectively. See Note 6 of the Notes to Consolidated Financial Statements for additional information on the credit quality of this portfolio.

### Nonperforming Assets

Nonperforming lending-related assets as a percentage of loans and leases and OREO decreased significantly to 0.81% at December 31, 2014, compared with 1.15% at December 31, 2013.

Total nonaccrual loans at December 31, 2014 decreased by \$99 million from the prior year, primarily due to a \$50 million decrease in commercial owner occupied loans, and a \$36 million decrease in commercial real estate term loans. The largest total decreases in nonaccrual loans occurred at Zions Bank and CB&T.

The balance of nonaccrual loans can decrease due to paydowns, charge-offs, and the return of loans to accrual status under certain conditions. If a nonaccrual loan is refinanced or restructured, the new note is immediately placed on nonaccrual. If a restructured loan performs under the new terms for at least a period of six months, the loan can be considered for return to accrual status. See "Restructured Loans" on page 73 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.

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Schedule 24 sets forth the Company's nonperforming lending-related assets.

## Schedule 24

## NONPERFORMING LENDING-RELATED ASSETS

(Amounts in millions)	December 31,					
	2014	2013	2012	2011	2010	
Nonaccrual loans:						
Loans held for sale	\$—	\$—	\$—	\$18	\$—	
Commercial:						
Commercial and industrial	106	101	94	130	229	
Leasing	—	1	1	2	1	
Owner occupied	87	137	207	242	349	
Municipal	1	10	9	—	2	
Commercial real estate:						
Construction and land development	24	29	108	221	494	
Term	25	60	137	173	288	
Consumer:						
Real estate	64	66	89	122	163	
Other	—	2	3	3	3	
Nonaccrual loans	307	406	648	911	1,529	
Other real estate owned:						
Commercial:						
Commercial properties	11	16	51	63	121	
Developed land	—	6	10	4	7	
Land	2	6	8	19	37	
Residential:						
1-4 family	4	8	8	35	64	
Developed land	2	9	15	22	52	
Land	—	1	6	10	18	
Other real estate owned	19	46	98	153	299	
Total nonperforming lending-related assets	\$326	\$452	\$746	\$1,064	\$1,828	
Ratio of nonperforming lending-related assets to net loans and leases <sup>1</sup> and other real estate owned	0.81	% 1.15	% 1.96	% 2.83	% 4.90	%
Accruing loans past due 90 days or more:						
Commercial	\$8	\$8	\$24	\$30	\$44	
Commercial real estate	20	29	32	55	89	
Consumer	1	3	6	9	9	
Total	\$29	\$40	\$62	\$94	\$142	
Ratio of accruing loans past due 90 days or more to net loans and leases <sup>1</sup>	0.07	% 0.10	% 0.16	% 0.25	% 0.38	%

<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 29% during 2014. 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.

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For certain TDRs, we split the loan into two new notes – an “A” note and a “B” note. The A note is structured to comply with our current lending standards at current market rates, and is tailored to suit the customer’s ability to make timely principal and interest payments. The B note includes the granting of the concession to the borrower and varies by situation. We may defer principal and interest payments until the A note has been paid in full. At the time of restructuring, the A note is identified and classified as a TDR. The B note is charged off, but the obligation is not forgiven to the borrower, and any payments collected on the B notes are accounted for as recoveries. The outstanding carrying value of loans restructured using the A/B note strategy was approximately \$112 million and \$126 million at December 31, 2014 and 2013, respectively.

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

## Schedule 25

## ACCRUING AND NONACCRUING TROUBLED DEBT RESTRUCTURED LOANS

(In millions)	December 31,	
	2014	2013
Restructured loans – accruing	\$245	\$345
Restructured loans – nonaccruing	98	136
Total	\$343	\$481

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

## Schedule 26

## TROUBLED DEBT RESTRUCTURED LOANS ROLLFORWARD

(In millions)	2014	2013
Balance at beginning of year	\$481	\$623
New identified TDRs and principal increases	81	213
Payments and payoffs	(149)	(271)
Charge-offs	(16)	(18)
No longer reported as TDRs	(36)	(28)
Sales and other	(18)	(38)
Balance at end of year	\$343	\$481

## Other Nonperforming Assets

In addition to lending-related nonperforming assets, the Company had \$4 million in carrying value (\$5.6 million at amortized cost) of investments in debt securities (primarily bank and insurance company CDOs) that were on nonaccrual status at December 31, 2014, compared to \$224 million in carrying value (\$239 million at amortized cost) at December 31, 2013. During 2014, we sold a significant portion of nonperforming securities in an effort to reduce



risk and maximize the use of capital because these securities were estimated to consume a significant amount of capital under the Dodd-Frank Act Stress Test.

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## Allowance and Reserve for Credit Losses

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

Schedule 27 shows the changes in the allowance for loan losses and a summary of loan loss experience.

## Schedule 27

## SUMMARY OF LOAN LOSS EXPERIENCE

(Amounts in millions)	2014	2013	2012	2011	2010	
Loans and leases outstanding on December 31, (net of unearned income)	\$40,064	\$39,043	\$37,665	\$37,258	\$36,830	
Average loans and leases outstanding, (net of unearned income)	\$39,523	\$38,107	\$37,037	\$36,897	\$38,326	
Allowance for loan losses:						
Balance at beginning of year	\$746	\$896	\$1,052	\$1,442	\$1,532	
Provision charged against earnings	(98)	(87)	14	75	853	
Adjustment for FDIC-supported/PCI loans	(1)	(11)	(15)	(9)	40	
Charge-offs:						
Commercial	(77)	(76)	(121)	(241)	(417)	)
Commercial real estate	(15)	(26)	(85)	(229)	(517)	)
Consumer	(14)	(29)	(61)	(90)	(140)	)
Total	(106)	(131)	(267)	(560)	(1,074)	)
Recoveries:						
Commercial	41	41	56	55	35	
Commercial real estate	12	25	42	35	44	
Consumer	11	13	14	14	12	
Total	64	79	112	104	91	
Net loan and lease charge-offs	(42)	(52)	(155)	(456)	(983)	)
Balance at end of year	\$605	\$746	\$896	\$1,052	\$1,442	
Ratio of net charge-offs to average loans and leases	0.11	% 0.14	% 0.42	% 1.24	% 2.56	%
Ratio of allowance for loan losses to net loans and leases, on December 31,	1.51	% 1.91	% 2.38	% 2.82	% 3.92	%
Ratio of allowance for loan losses to nonperforming loans, on December 31,	197.18	% 183.54	% 138.25	% 115.43	% 94.32	%
Ratio of allowance for loan losses to nonaccrual loans and accruing loans past due 90 days or more, on December 31,	180.03	% 166.97	% 126.22	% 104.67	% 86.31	%

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Schedule 28 provides a breakdown of the allowance for loan losses and the allocation among the portfolio segments.

## Schedule 28

## ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

At December 31,

	2014		2013		2012		2011		2010		
(Amounts in millions)	% of total loans	Allocation % of allowance	% of total loans	Allocation % of allowance	% of total loans	Allocation % of allowance	% of total loans	Allocation % of allowance	% of total loans	Allocation % of allowance	Allocation of allowance
Loan segment											
Commercial	53.5 %	\$413	53.5 %	\$469	52.9 %	\$521	52.7 %	\$578	50.0 %	\$786	
Commercial real estate	25.3	145	26.6	216	27.4	277	28.5	347	32.0	497	
Consumer	21.2	47	19.9	61	19.7	98	18.8	127	18.0	159	
Total	100.0 %	\$605	100.0 %	\$746	100.0 %	\$896	100.0 %	\$1,052	100.0 %	\$1,442	

The total ALLL declined during 2014 by \$141 million due to the positive credit trends experienced in our major loan portfolio segments and due to reductions in outstanding balances of construction and land development loans.

However, during the fourth quarter of 2014, the Company increased the portion of the ALLL related to qualitative and environmental factors to account for the increased risk of loss on loans that are likely to be affected by the sharp decline in oil prices and more moderate decline in natural gas prices that occurred during the quarter.

The total ALLL at December 31, 2013 decreased by \$150 million compared to December 31, 2012. The decreases in the ALLL reflected improvements in credit quality trends and somewhat improving economic conditions in some of our markets. The Company decreased the portion of the ALLL related to qualitative and environmental factors to reflect the positive credit quality trends and stabilizing economic conditions.

The reserve for unfunded lending commitments represents a reserve for potential losses associated with off-balance sheet commitments and standby letters of credit. The reserve is separately shown in the Company's balance sheet and any related increases or decreases in the reserve are shown separately in the statement of income. The reserve decreased by \$8.6 million compared to December 31, 2013, primarily driven by improvements in credit quality metrics and reductions in commitments of construction and land development loans, but partially offset by an increase in other unfunded loan commitments.

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.

**Interest Rate and Market Risk Management**

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

The Company's Board of Directors is responsible for approving the overall policies relating to the management of the financial risk of the Company, including interest rate and market risk management. The Boards of Directors of the Company's subsidiary banks are also required to review and approve these policies. In addition, the Board establishes and periodically revises policy limits and reviews limit exceptions reported by management. The Board has established the 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. Among its other responsibilities, ALCO's primary responsibility for managing interest rate and market risk includes the following:

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recommending policies to the Enterprise Risk Management Committee (“ERMC”) and administering the Board-approved policies that govern and limit the Company’s exposure to all interest rate and market risks, including policies that are designed to limit the Company’s adverse exposure to changes in interest rates;

- approving procedures that support the Board-approved policies;
- approving all material interest rate risk management strategies;
- approving all financial derivative positions taken at both the Parent and subsidiaries for the purpose of hedging the Company’s interest rate and market risks;
- overseeing the management of the balance sheet, net interest income, and liquidity;
- calculating the estimated economic value of each class of assets, liabilities, and net equity, given defined interest rate scenarios;
- managing the Company’s estimated earnings at risk and estimated economic value of equity (“EVE”) due to interest rate fluctuations; and

reporting timely all policy limit violations to the Chief Risk Officer, who reports them to the Board of Directors.

**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. The asset sensitivity of the Company’s balance sheet changed minimally during 2014.

Due to the low level of rates and the natural lower bound of zero for market indices, there is limited sensitivity to falling rates at the current time, and the Company has tended to operate near its interest rate risk triggers and appetites noted in Schedule 29 following. However, if interest rates remain at their current historically low levels, given the Company’s asset sensitivity, it would expect its net interest margin to be under continuing modest pressure assuming a stable balance sheet. In order to mitigate this pressure, in 2014, the Company began incrementally deploying cash and money market instruments into short-to-medium duration, HQLA-qualifying, pass-through agency residential mortgage backed securities. During 2014, it increased its HQLA securities by approximately \$1.0 billion, and it expects to continue purchasing HQLA securities at a pace of \$1.5 to \$2.0 billion in 2015, and possibly beyond. We expect these purchases to mitigate, but not eliminate, the Company’s asset sensitivity over time.

We attempt to minimize the impact of changing interest rates on net interest income primarily through the use of interest rate floors on variable rate loans, interest rate swaps, interest rate futures, and by avoiding large exposures to long-term fixed rate interest-earning assets that could experience a substantially slower return of principal in a rising rate environment (e.g., 30-year pass-through mortgage-backed securities). Our earning assets are largely tied to the shorter end of the interest rate curve. The prime lending rate and the LIBOR curves are the primary indices used for pricing the Company’s loans. The interest rates paid on deposit accounts are set by individual banks so as to be competitive in each local market.

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

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 caps on loans, which have little effect for small rate movements but may become important if larger rate shocks were to occur, or substantial prepayment deceleration for low rate mortgages in a higher rate environment. The Company’s policy is to limit declines in EVE to 4% per 100 bps movement in interest rates in either direction. Schedule 29 presents the formal limits adopted by the



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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.

## Schedule 29

## 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	%

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 options within the portfolio (e.g. a borrower's ability to refinance a loan under a lower rate environment). For net interest income simulation, Company policy requires that net interest income from a static balance sheet be limited to a decline of no more than 10% during one year if rates were to immediately rise or fall in parallel by 200 bps.

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

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

## Schedule 30

## REPRICING SCENARIO ASSUMPTIONS BY DEPOSIT PRODUCT

Product	As of December 31, 2014				
	Fast		Slow		
	Effective duration (base)	Effective duration (+200 bps)	Effective duration (base)	Effective duration (+200 bps)	
Demand deposits	1.7	% 1.7	% 2.8	% 2.9	%
Money market	0.8	% 0.7	% 1.2	% 1.1	%
Savings and interest on checking	3.0	% 2.8	% 3.8	% 3.6	%

Note: Effective duration measures the percent change in EVE for a 100 bps parallel shift in rates as compared to the Macaulay Duration, which measures weighted average life of cash flows in years and is not reported. The Company's Demand Deposit Model assumes significant run-off of noninterest-bearing deposits in the event of rising interest rates.





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

The first scenario assumes that administered-rate deposits (money market, interest-earning checking, and savings) reprice at a faster speed in response to changes in interest rates. In the current low rate environment, significant declines in interest rates from current levels are deemed less likely and, therefore, the magnitude of downward rate shocks is limited. At December 31, 2014 and 2013, interest rates were at such a low level that repricing scenarios assuming -100 bps rate shocks produced negative results.

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

## Schedule 31

## INCOME SIMULATION – CHANGE IN NET INTEREST INCOME

Repricing scenario	As of December 31, 2014							
	-100 bps		+100 bps		+200 bps		+300 bps	
Fast	(3.0	)%	6.8	%	13.9	%	20.6	%
Slow	(3.2	)%	8.1	%	16.5	%	24.6	%
Repricing scenario	As of December 31, 2013							
	-100 bps		+100 bps		+200 bps		+300 bps	
Fast	(3.1	)%	6.8	%	14.2	%	21.3	%
Slow	(3.2	)%	8.1	%	16.9	%	25.4	%

Schedule 32 includes changes in the EVE from -100 bps to +300 bps parallel rate moves for both "fast" and "slow" scenarios.

## Schedule 32

## CHANGES IN ECONOMIC VALUE OF EQUITY

Repricing scenario	As of December 31, 2014							
	-100 bps		+100 bps		+200 bps		+300 bps	
Fast	1.4	%	1.2	%	2.4	%	2.6	%
Slow	(2.1	)%	6.3	%	12.3	%	16.9	%
Repricing scenario	As of December 31, 2013							
	-100 bps		+100 bps		+200 bps		+300 bps	
Fast	0.6	%	1.1	%	2.6	%	3.3	%
Slow	(3.5	)%	6.2	%	13.0	%	18.4	%

During 2014, changes in both measures of interest rate sensitivity were, among other things, driven by:

- a 9.4% year-over-year increase in noninterest-bearing demand deposits;
- the redemption of long-term debt from cash reserves;
- issuance of \$525 million of new common equity; and
- increase of approximately \$1.0 billion of primarily short-to-medium duration agency pass-through securities which qualify as HQLA.



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In 2015, we expect to introduce a new modeling approach to monitor interest rate risk. Based on parallel testing during 2014, we expect the new model will show reduced asset sensitivity compared to Schedule 32, particularly in the “slow” scenario.

Our focus on business banking also plays a significant role in determining the nature of the Company’s asset-liability management posture. At December 31, 2014 and 2013, approximately 77.5% and 77.7%, respectively, of the Company’s commercial lending and CRE portfolios were variable rate and primarily tied to either the prime rate or LIBOR. In addition, certain of our consumer loans also have variable interest rates. See Schedule 17 for further information on fixed and variable interest rates of the loan portfolio.

Largely due to competitive pressures, the favorable impact on loan yield from the use of interest rate floors has diminished. As of December 31, 2014 and 2013, approximately 36.5% and 39.4%, respectively, of all of the Company’s variable rate loan balances contain floors. Of the loans with floors, approximately 58.5% and 64.5% of the balances at these same respective dates were priced at the floor rates, which were above the “index plus spread” rate by an average of 0.42% and 0.53%, respectively.

At December 31, 2014, the Company held \$275 million (notional amount) of interest rate swap agreements of which \$50 million each mature in 2018 and 2019. See Notes 7 and 20 of the Notes to Consolidated Financial Statements for additional information regarding derivative instruments.

### 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 December 31, 2014, the Company had a relatively small amount, \$71 million, of trading assets and \$24 million of securities sold, not yet purchased, compared with \$35 million and \$74 million, respectively, at December 31, 2013.

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 2014, the after-tax change in AOCI attributable to AFS and HTM securities was an increase of \$77 million compared to a \$235 million increase in 2013. The primary reasons for the \$77 million increase in 2014 are the sales of CDOs and the observed improvement in market values of trust preferred CDOs; such market improvements may not be sustainable. 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 52 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 \$86 million and \$61 million at December 31,

2014 and 2013, respectively.

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Additionally, Amegy has an alternative investments portfolio. These investments are primarily directed towards equity buyout and mezzanine funds with a key strategy of deriving ancillary commercial banking business from the portfolio companies. Early stage venture capital funds were generally not a part of the strategy since the underlying companies were typically not creditworthy. The carrying value of Amegy's equity investments was \$38 million and \$54 million at December 31, 2014 and 2013, respectively.

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 December 31, 2014, such prohibited private equity investments, except for SBIC funds, amounted to \$41 million, with an additional \$25 million of unfunded commitments (see Note 17 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

### Overview

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.

Overseeing liquidity management is the responsibility of ALCO, which implements a Board-adopted corporate Liquidity and Funding Policy. This policy addresses maintaining adequate liquidity, diversifying funding positions, monitoring liquidity at consolidated as well as subsidiary bank levels, and anticipating future funding needs. The policy also includes liquidity ratio guidelines, for example, the "time-to-required funding" and fixed charges coverage ratios, that are used to monitor the liquidity positions of the Parent and subsidiary banks, as well as various stress test and liquid asset measurements for the Parent and subsidiary banks' liquidity.

The management of liquidity and funding is performed centrally for the Parent and jointly by the Parent and bank management for its subsidiary banks. Zions Bank's Capital Markets/Investment Division performs this management centrally, under the direction of the Company's Chief Investment Officer, with oversight by ALCO. The Chief Investment Officer is responsible for recommending changes to existing funding plans, as well as to the Company's Liquidity Policy. These recommendations must be submitted for approval to ALCO, and changes to the Policy also must be approved by the Company's Enterprise Risk Management Committee and the Board of Directors. The Company has adopted policy limits that govern liquidity risk, including a target for the Parent's time-to-required funding of 18-24 months, with a minimum policy limit of not less than 12 months. Throughout 2014 and as of December 31, 2014, the Company complied with this policy.

The subsidiary banks have authority to price deposits, borrow from their FHLB and the Federal Reserve, and sell/purchase federal funds to/from Zions Bank and/or correspondent banks. The banks may also make liquidity and funding recommendations to the Chief Investment Officer.

### 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



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requires a financial institution to hold an adequate amount of unencumbered High Quality Liquid Assets (“HQLA”) that can be converted into cash easily and immediately in private markets to meet its liquidity needs for a short-term liquidity stress scenario. 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. However, the Federal Reserve has not yet proposed regulations to implement these Basel Committee standards. The Company is monitoring these developments.

## Contractual Obligations

Schedule 33 summarizes the Company’s contractual obligations at December 31, 2014:

## Schedule 33

## CONTRACTUAL OBLIGATIONS

(In millions)	One year or less	Over one year through three years	Over three years through five years	Over five years	Indeterminable maturity <sup>1</sup>	Total
Deposits	\$1,933	\$392	\$216	\$1	\$45,305	\$47,847
Commitments to extend credit	4,591	5,695	3,246	3,127		16,659
Standby letters of credit:						
Financial	564	95	6	81		746
Performance	150	31	2			183
Commercial letters of credit	30		2			32
Commitments to make venture and other noninterest-bearing investments <sup>2</sup>	25					25
Federal funds and other short-term borrowings	244					244
Long-term debt <sup>3</sup>	217	250	39	585		1,091
Operating leases, net of subleases	47	88	67	125		327
Unrecognized tax benefits		3				3
	\$7,801	\$6,554	\$3,578	\$3,919	\$45,305	\$67,157

<sup>1</sup> Indeterminable maturity deposits include noninterest-bearing demand, savings and money market, and non-time foreign.

<sup>2</sup> Commitments to make venture and other noninterest-bearing investments do not have defined maturity dates. They have therefore been considered due on demand, maturing in one year or less.

<sup>3</sup> The maturities on long-term borrowings do not include the associated hedges.

In addition to the commitments specifically noted in Schedule 33, the Company enters into a number of contractual commitments in the ordinary course of business. These include software licensing and maintenance,

telecommunications services, facilities maintenance and equipment servicing, supplies purchasing, and other goods and services used in the operation of its business. Generally, these contracts are renewable or cancelable at least annually, although in some cases to secure favorable pricing concessions, the Company has committed to contracts that may extend to several years.



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The Company also enters into derivative contracts under which it is required either to receive or pay cash, depending on changes in interest rates. These contracts are carried at fair value on the balance sheet with the fair value representing the net present value of the expected future cash receipts and payments based on market rates of interest as of the balance sheet date. The fair value of the contracts changes daily as interest rates change. See Note 7 of the Notes to Consolidated Financial Statements for further information on derivative contracts.

**Liquidity Management Actions**

Consolidated cash, interest-bearing deposits held as investments, and security resell agreements at the Parent and its subsidiaries decreased slightly to \$9.2 billion at December 31, 2014 from \$9.3 billion at December 31, 2013. The \$0.1 billion decrease during 2014 resulted primarily from (1) repayments of debt, (2) net loan originations and purchases, and (3) dividends on preferred and common stock. These decreases in cash were partially offset by (1) an increase in deposits, (2) the issuance of common stock, and (3) net cash provided by operating activities.

**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 increased to \$1.0 billion at December 31, 2014 from \$0.9 billion at December 31, 2013. The \$0.1 billion increase during 2014 was primarily a result of (1) the issuance of common stock, (2) sales and paydowns of CDO securities, and (3) dividends received from subsidiaries. These increases were partially offset by (1) repayments of approximately \$1.1 billion of senior notes and \$106 million of subordinated notes, (2) interest payments on debt, and (3) the payment of preferred and common dividends. The issuance of \$525 million of common stock during 2014 consisted of approximately 17.6 million shares at a price of \$29.80 per share. Net of commissions and fees, this issuance added approximately \$516 million to common stock. See Notes 12 and 13 of the Notes to Consolidated Financial Statements for additional information about the Company’s long-term debt and equity transactions.

During 2015, the Company expects to redeem high-cost, long-term debt, including debt from maturities and from early optional redemption provisions. The Parent’s long-term debt maturities in 2015 include:

**Schedule 34****LONG-TERM DEBT MATURITIES IN 2015**

(Amounts in millions)

Description	Coupon rate	December 31, 2014		
		Carrying balance	Par amount	Maturity
Subordinated note	6.00%	\$32.9	\$32.4	September 15, 2015
Convertible subordinated note	6.00%	70.4	79.3	September 15, 2015
Subordinated note	5.50%	53.0	52.1	November 16, 2015
Convertible subordinated note	5.50%	62.4	71.6	November 16, 2015
		\$218.7	\$235.4	

In addition, at December 31, 2014, the Company had optional early redemptions totaling \$27 million of long-term senior notes during 2015. On February 17, 2015, \$8.0 million of this amount was redeemed.

During 2014, the Parent received common dividends and return of common equity totaling \$190 million and preferred dividends totaling \$46 million from its subsidiary banks. During 2013, the Parent received from its subsidiary banks

\$377 million for common dividends and return of common equity, \$45 million for preferred dividends, and \$175 million from the redemption of preferred stock issued to the Parent. The dividends that our subsidiary banks can pay to the Parent are restricted by current and historical earning levels, retained earnings, and risk-based and other regulatory capital requirements and limitations. During 2014, all of the Company's subsidiary

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banks recorded a profit, except for 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 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 2014, except that Fitch's outlook for the Company was revised to stable from positive. 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.

Schedule 35 presents the Parent's ratings as of December 31, 2014:

## Schedule 35

## CREDIT RATINGS

Rating agency	Outlook	Long-term issuer/senior debt rating	Subordinated debt rating
S&P	Stable	BBB-	BB+
Moody's	Stable	Ba1	Ba2
Fitch	Stable	BBB-	BB+
DBRS	Stable	BBB (low)	BB (high)
Kroll	Stable	BBB	BBB-

The Parent's cash payments for interest, reflected in operating expenses, decreased to \$96 million in 2014 from \$126 million in 2013 as a result of a net repayment of debt of \$1.2 billion and \$0.2 billion during 2014 and 2013, respectively. Cash payments for interest is expected to continue to decrease during 2015 as a result of the debt repayments during 2014 and the expected debt repayments during 2015.

Additionally, the Parent paid approximately \$96 million and \$120 million of total dividends on preferred stock and common stock during 2014 and 2013, respectively. Preferred stock dividends were lower during 2014 compared to 2013 primarily as a result of the replacement of the 9.5% Series C preferred stock with lower-rate Series G, H, I, and J preferred stock during the first three quarters of 2013.

Note 23 of the Notes to Consolidated Financial Statements contains the Parent's statements of income and cash flows for 2014, 2013 and 2012, as well as its balance sheets at December 31, 2014 and 2013.

At December 31, 2014, maturities of the Company's long-term senior and subordinated debt ranged from September 2015 to September 2028, with effective interest rates from 3.30% to 6.95%.

See Note 12 of the Notes to Consolidated Financial Statements for a complete summary of the Company's long-term debt.

**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 December 31, 2014, these core deposits, excluding brokered deposits, in aggregate, constituted 97.3% of consolidated deposits, compared with 97.1% at December 31, 2013. On a consolidated basis, the Company's net loan to total deposit ratio is 83.7% as of December 31, 2014, compared to 84.2% as of December 31, 2013.

During 2014, the Company repaid Amegy's \$75 million subordinated note, which matured on September 22, 2014.



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Deposit growth during 2014 was very strong. Total deposits increased by \$1.5 billion from \$46.3 billion at December 31, 2013 to \$47.8 billion at December 31, 2014 mainly due to increases of \$1.8 billion in noninterest-bearing demand deposits and \$1.5 billion in savings deposits. These increases were partly offset primarily by a decrease of \$1.6 billion in foreign deposits and \$0.2 billion in time deposits. The Company experienced a significant reduction in foreign deposits as a result of closing some of its Cayman Islands operations. These foreign deposits were transferred to domestic savings and money market deposit accounts.

Also, during 2014, the subsidiary banks redeployed approximately \$1.0 billion in interest-bearing deposits held as investments to security resell agreements.

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

At December 31, 2014, the amount available for additional FHLB and Federal Reserve borrowings was approximately \$16.4 billion. Loans with a carrying value of approximately \$22.5 billion at December 31, 2014, and \$23.0 billion at December 31, 2013 have been pledged at the Federal Reserve and various FHLBs as collateral for current and potential borrowings. The Company had a de minimis amount (approximately \$22 million) of long-term borrowings outstanding with the FHLB at December 31, 2014, which was a slight decrease from \$23 million at December 31, 2013. The Company had no short-term FHLB or Federal Reserve borrowings outstanding at December 31, 2014, which was unchanged from December 31, 2013. At December 31, 2014 and 2013, the subsidiary banks' total investment in FHLB stock was approximately \$104 million and \$105 million, respectively. The subsidiary banks' total investment in Federal Reserve stock was approximately \$121 million at both December 31, 2014 and 2013.

The Company's investment activities can provide or use cash, depending on the asset-liability management posture taken. During 2014, investment securities' activities resulted in a net increase in investment securities and a net \$71 million decrease in cash compared with a net \$246 million decrease in cash for 2013.

Maturing balances in our subsidiary banks' loan portfolios also provide additional flexibility in managing cash flows. Lending and purchase activity for 2014 resulted in a net cash outflow of \$1.1 billion compared to a net cash outflow of \$1.5 billion for 2013.

During 2014, the Company paid income taxes of \$183 million, compared to \$181 million during 2013.

### 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.



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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.

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 to the Operational Risk Committee, the Enterprise Risk Management Committee, and the Risk Oversight Committee of the Board on a regular basis. 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 we manage this risk in an effective manner.

## CAPITAL MANAGEMENT

### Overview

The Board of Directors is responsible for approving the policies associated with capital management. The Board has established the Capital Management Committee ("CMC") whose primary responsibility is to recommend and administer the approved capital policies that govern the capital management of the Company and its subsidiary banks. Other major CMC responsibilities include:

Setting overall capital targets within the Board-approved capital policy, monitoring performance compared to the Company's Capital Policy limits, and recommending changes to capital including dividends, common stock repurchases, subordinated debt, and changes in major strategies to maintain the Company and its subsidiary banks at well capitalized levels;

- Maintaining an adequate capital cushion to withstand adverse stress events while continuing to meet the lending needs of its customers, and to provide reasonable assurance of continued access to wholesale funding, consistent with fiduciary responsibilities to depositors and bondholders; and

Reviewing agency ratings of the Parent and its subsidiary banks and establishing target ratings.

The Company has a fundamental financial objective to consistently produce superior risk-adjusted returns on its shareholders' capital. We believe that a strong capital position is vital to continued profitability and to promoting depositor and investor confidence. Specifically, it is the policy of the Parent and each of the subsidiary banks to:

• Maintain sufficient capital to support current needs;

• Maintain an adequate capital cushion to withstand future adverse stress events while continuing to meet borrowing needs of its customers; and

• Meet fiduciary responsibilities to depositors and bondholders while managing capital distributions to shareholders through dividends and repurchases of common stock so as to be consistent with Federal Reserve guidelines SR 09-04 and 12 U.S.C §§ 56 and 60.

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### Capital Plan and Stress Tests

The CMC oversees the Company's capital stress testing under a variety of adverse economic and market scenarios. The Company has established processes to periodically conduct stress tests to evaluate potential impacts to the Company under hypothetical economic scenarios. These stress tests facilitate our contingency planning and management of capital and liquidity within quantitative limits reflecting the Board of Directors' risk appetite. These processes are also used to complete the Company's DFAST, as required by the Dodd-Frank Act, and CCAR as required by the Federal Reserve.

Filing a capital plan with the Federal Reserve based on stress-testing and documented sound policies, processes, models, controls, and governance practices, and the subsequent review by the Federal Reserve, is an annual regulatory requirement. This capital plan, which is subject to objection by the Federal Reserve, governs all of the Company's capital and significant unsecured debt financing actions for a period of five quarters. Among the actions governed by the capital plan are the repurchase of outstanding capital securities and the timing of new capital issuances, and whether the Company can pay or increase dividends. Any such action not included in a capital plan to which the Federal Reserve has not objected cannot be executed without submission of a revised stress test and capital plan for Federal Reserve review and non-objection; de minimis changes are allowed without a complete plan resubmission, subject to receipt of a Federal Reserve non-objection. Regulations require Company disclosure of these stress tests results. The Company submitted its 2015 capital plan to the Federal Reserve on January 5, 2015. The Federal Reserve has indicated it will announce the results of its CCAR 2015 review by mid-March.

The Company originally submitted its 2014 capital plan to the Federal Reserve on January 6, 2014. The Company subsequently notified the Federal Reserve of its intention to resubmit its capital plan to reflect the impact of the Volcker Rule, and the impact of its decision to sell certain CDO securities to improve the Company's risk profile. In February 2014, the Federal Reserve granted its approval for a resubmission. In March 2014, the Federal Reserve notified the Company that, based upon its original capital plan, the Company's capital ratios would not have met certain minimum requirements of the Federal Reserve's capital adequacy rules under results projected by the Federal Reserve using the hypothetical severely adverse economic stress scenario in the Dodd-Frank Act Stress Test ("DFAST"). The DFAST results were worse than those projected by the Company with regard to pretax, pre-provision net revenue and credit losses for some loan types.

Under the Federal Reserve's capital planning rules, this failure to maintain required minimum capital ratios as projected by the Federal Reserve under its severely adverse stress scenario triggered a requirement that the Company conduct a new stress test and submit a new capital plan. The Company resubmitted its 2014 capital plan and stress test on April 30, 2014 to the Federal Reserve. The resubmitted plan incorporated the impact of the IFR CDO exemption, the impact of the sales of CDO securities that occurred in the first quarter of 2014, and an increase in the amount of new common equity that the Company proposed to issue to \$400 million.

On July 25, 2014, the Federal Reserve announced that it did not object to the Company's 2014 resubmitted capital plan. The post-stress Tier 1 common ratio computed by the Federal Reserve met the CCAR requirements. However, the Company determined to increase the new common equity issuance to \$525 million as discussed previously.

### Capital Management Actions

Total shareholders' equity increased by 14.1% from \$6.5 billion at December 31, 2013 to \$7.4 billion at December 31, 2014. The increase in total shareholders' equity is primarily due to the issuance of \$525.0 million of common stock, \$398.5 million of net income, and a \$76.9 million improvement in net unrealized losses on investment securities recorded in AOCI, partially offset by \$103.1 million of dividends recorded on preferred and common stock. The improvement in net unrealized losses on investment securities during 2014 was primarily the result of an increase in the fair value of investment securities, partially offset by the recognition in earnings of net fixed income securities



gains on investment securities sold.

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The Company has maintained its quarterly dividend on common stock at \$0.04 per share since the second quarter of 2013, which was an increase of \$0.03 per share from the \$0.01 per share paid during the first quarter of 2013 and during each quarter of 2012. The Company paid \$31.3 million in dividends on common stock during 2014, compared to \$24.1 million during 2013. During its January 2015 meeting, the Board of Directors declared a dividend of \$0.04 per common share payable on February 26, 2015 to shareholders of record on February 19, 2015.

The Company recorded preferred stock dividends of \$71.9 million for 2014 and \$95.5 million for 2013. The current annualized run rate of preferred dividends is approximately \$63 million annually or approximately \$15 million to \$16 million quarterly, consistent with the amounts recorded during the last three quarters of 2014.

Banking organizations are required by capital regulations to maintain adequate levels of capital as measured by several regulatory capital ratios. The Company's capital ratios as of December 31, 2014, 2013, and 2012 under Basel I are shown in Schedule 36. Also shown are pro forma ratios as of December 31, 2014 under Basel III, which is discussed subsequently.

## Schedule 36

## CAPITAL AND PERFORMANCE RATIOS

	Basel I			Basel III December 31, 2014 pro forma		Fully Phased-in	
	2014	2013	2012	2015 Phase-in			
Tangible common equity ratio	9.48	% 8.02	% 7.09	%			
Tangible equity ratio	11.27	% 9.85	% 9.15	%			
Average equity to average assets	12.57	% 11.81	% 12.22	%			
Risk-based capital ratios:							
Tier 1 common	11.92	% 10.18	% 9.80	% 11.82	% 11.80	%	
Tier 1 leverage	11.82	% 10.48	% 10.96	% 11.59	% 11.43	%	
Tier 1 risk-based	14.47	% 12.77	% 13.38	% 14.03	% 13.84	%	
Total risk-based	16.27	% 14.67	% 15.05	% 16.08	% 15.98	%	
Return on average common equity	5.42	% 5.73	% 3.76	%			
Tangible return on average tangible common equity	6.70	% 7.44	% 5.18	%			

Note 18 of the Notes to Consolidated Financial Statements provides additional information on risk-based capital.

At December 31, 2014, regulatory Tier 1 risk-based capital and total risk-based capital were \$6.6 billion and \$7.4 billion, respectively, compared to \$5.8 billion and \$6.6 million at December 31, 2013.

## 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 revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including the Company, compared to the current U.S. risk-based capital rules.

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 in this Annual Report on Form 10-K.

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The Company believes that, as of December 31, 2014, the Company and its subsidiary banks would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were currently effective. See Schedule 38 regarding the pro forma Basel III ratios at December 31, 2014.

## GAAP to NON-GAAP RECONCILIATIONS

## 1. Tier 1 common capital

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

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

Schedule 37 provides a reconciliation of controlling interest shareholders' equity (GAAP) to Tier 1 capital (regulatory) and to T1C capital (non-GAAP) using current U.S. regulatory treatment and not proposed Basel III calculations.

## Schedule 37

## TIER 1 COMMON CAPITAL (NON-GAAP)

(Amounts in millions)	December 31,		
	2014	2013	2012
Controlling interest shareholders' equity (GAAP)	\$7,370	\$6,465	\$6,052
Accumulated other comprehensive loss	128	192	446
Nonqualifying goodwill and intangibles	(1,040 )	(1,050 )	(1,065 )
Disallowed deferred tax assets	—	—	—
Other regulatory adjustments	(1 )	(6 )	3
Qualifying trust preferred securities	163	163	448
Tier 1 capital (regulatory)	6,620	5,764	5,884
Qualifying trust preferred securities	(163 )	(163 )	(448 )
Preferred stock	(1,004 )	(1,004 )	(1,128 )
Tier 1 common capital (non-GAAP)	\$5,453	\$4,597	\$4,308
Risk-weighted assets (regulatory)	\$45,738	\$45,146	\$43,970
Tier 1 common capital to risk-weighted assets (non-GAAP)	11.92	% 10.18	% 9.80
		%	%



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## 2. Basel III Risk-Based Capital Ratios, Pro Forma

This Annual Report on Form 10-K presents Basel III risk-based capital ratios at December 31, 2014 on a pro forma basis as if such requirements were currently effective. They are presented under the year 1 phase-in assumptions, which will be used for 2015, and under the fully phased-in assumptions which will occur in 2019.

Schedule 38 presents risk-based capital amounts under the currently effective Basel I rules and, after adjustment, under the Basel III requirements as if such requirements were currently effective. The pro forma Basel III risk-based capital ratios are then computed.

## Schedule 38

## Basel III Risk-Based Capital Ratios (Pro Forma, NON-GAAP)

(Amounts in millions)	Basel III December 31, 2014 pro forma		
	2015 Phase-in	Fully Phased-in	
Basel I Tier 1 capital (Regulatory)	\$6,620	\$6,620	
Basel III adjustments	(131 )	(226 )	
Projected Basel III Tier 1 capital (non-GAAP) (a)	6,489	6,394	
Basel I Tier 1 common capital (non-GAAP) (see Schedule 37)	5,453	5,453	
Basel III adjustments	16	1	
Projected Basel III Tier 1 common capital (non-GAAP) (b)	5,469	5,454	
Basel I Total risk-based capital (Regulatory)	7,443	7,443	
Basel III adjustments	(4 )	(58 )	
Projected Basel III total risk-based capital (non-GAAP) (c)	7,439	7,385	
Basel I risk-weighted assets (Regulatory)	45,738	45,738	
Basel III adjustments	519	475	
Projected Basel III risk-weighted assets (non-GAAP) (d)	46,257	46,213	
Basel I tier 1 leverage risk-weighted assets (Regulatory)	55,987	55,987	
Basel III adjustments	(9 )	(63 )	
Projected Basel I tier 1 leverage risk-weighted assets (non-GAAP) (e)	\$55,978	\$55,924	
Non-GAAP Projected Basel III risk-based capital ratios:			
Tier 1 common (b/d)	11.82	% 11.80	%
Tier 1 leverage (a/e)	11.59	% 11.43	%
Tier 1 risk-based (a/d)	14.03	% 13.84	%
Total risk-based (c/d)	16.08	% 15.98	%

## 3. Tangible return on average tangible common equity

This Annual Report on Form 10-K presents “tangible return on average tangible common equity” which excludes, net of tax, the amortization of core deposit and other intangibles and impairment loss on goodwill from net earnings

applicable to common shareholders, and average goodwill and core deposit and other intangibles from average common equity.

Schedule 39 provides a reconciliation of net earnings applicable to common shareholders (GAAP) to net earnings applicable to common shareholders, excluding net of tax, the effects of amortization of core deposit and other intangibles and impairment loss on goodwill (non-GAAP), and average common equity (GAAP) to average tangible common equity (non-GAAP).

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## Schedule 39

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

(Amounts in millions)	Year Ended December 31,			
	2014	2013	2012	
Net earnings applicable to common shareholders (GAAP)	\$326.6	\$294.0	\$178.6	
Adjustments, net of tax:				
Impairment loss on goodwill	—	—	0.6	
Amortization of core deposit and other intangibles	6.9	9.1	10.8	
Net earnings applicable to common shareholders, excluding the effects of the adjustments, net of tax (non-GAAP) (a)	\$333.5	\$303.1	\$190.0	
Average common equity (GAAP)	\$6,024	\$5,130	\$4,745	
Average goodwill	(1,014 )	(1,014 )	(1,015 )	
Average core deposit and other intangibles	(31 )	(44 )	(59 )	
Average tangible common equity (non-GAAP) (b)	\$4,979	\$4,072	\$3,671	
Tangible return on average tangible common equity (non-GAAP) (a/b)	6.70	% 7.44	% 5.18	%

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

This Annual Report on Form 10-K presents “tangible equity” and “tangible common equity” which excludes goodwill and core deposit and other intangibles for both measures and preferred stock and noncontrolling interests for tangible common equity.

Schedule 40 provides a reconciliation of total shareholders' equity (GAAP) to both tangible equity (non-GAAP) and tangible common equity (non-GAAP).

## Schedule 40

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

(Amounts in millions)	December 31,			
	2014	2013	2012	
Total shareholders' equity (GAAP)	\$7,370	\$6,465	\$6,049	
Goodwill	(1,014 )	(1,014 )	(1,014 )	
Core deposit and other intangibles	(26 )	(36 )	(51 )	
Tangible equity (non-GAAP) (a)	6,330	5,415	4,984	
Preferred stock	(1,004 )	(1,004 )	(1,128 )	
Noncontrolling interests	—	—	3	
Tangible common equity (non-GAAP) (b)	\$5,326	\$4,411	\$3,859	
Total assets (GAAP)	\$57,209	\$56,031	\$55,512	
Goodwill	(1,014 )	(1,014 )	(1,014 )	
Core deposit and other intangibles	(26 )	(36 )	(51 )	
Tangible assets (non-GAAP) (c)	\$56,169	\$54,981	\$54,447	
Tangible equity ratio (a/c)	11.27	% 9.85	% 9.15	%
Tangible common equity ratio (b/c)	9.48	% 8.02	% 7.09	%

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



We believe that excluding the amounts associated with these adjustments to present the non-GAAP financial measures provides a meaningful base for period-to-period and company-to-company comparisons, which will assist regulators, investors, and analysts in analyzing the operating results or financial position of the Company and in

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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 as reported under GAAP.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Information required by this Item is included in "Interest Rate and Market Risk Management" in MD&A beginning on page 76 and is hereby incorporated by reference.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT ON MANAGEMENT’S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Zions Bancorporation and subsidiaries (“the Company”) is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined by Exchange Act Rules 13a-15 and 15d-15.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Although any system of internal control can be compromised by human error or intentional circumvention of required procedures, we believe our system provides reasonable assurance that financial transactions are recorded and reported properly, providing an adequate basis for reliable financial statements.

The Company’s management has used the criteria established in Internal Control – Integrated Framework (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) to evaluate the effectiveness of the Company’s internal control over financial reporting.

The Company’s management has assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2014 and has concluded that such internal control over financial reporting is effective. There are no material weaknesses in the Company’s internal control over financial reporting that have been identified by the Company’s management.

Ernst & Young LLP, an independent registered public accounting firm, has audited the consolidated financial statements of the Company for the year ended December 31, 2014 and has also issued an attestation report, which is included herein, on internal control over financial reporting under Auditing Standard No. 5 of the Public Company Accounting Oversight Board (“PCAOB”).

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REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Audit Committee of the Board of Directors and Shareholders of Zions Bancorporation and Subsidiaries

We have audited Zions Bancorporation and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Zions Bancorporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report on Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Zions Bancorporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Zions Bancorporation and subsidiaries as of December 31, 2014 and 2013 and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014 of Zions Bancorporation and subsidiaries and our report dated February 27, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Salt Lake City, Utah  
February 27, 2015



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REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

Audit Committee of the Board of Directors and Shareholders of Zions Bancorporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of Zions Bancorporation and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Zions Bancorporation and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Zions Bancorporation and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 27, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Salt Lake City, Utah  
February 27, 2015

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CONSOLIDATED BALANCE SHEETS

(In thousands, except shares)	December 31, 2014	2013
<b>ASSETS</b>		
Cash and due from banks	\$845,905	\$1,175,083
Money market investments:		
Interest-bearing deposits	7,174,134	8,175,048
Federal funds sold and security resell agreements	1,386,291	282,248
Investment securities:		
Held-to-maturity, at adjusted cost (approximate fair value \$677,196 and \$609,547)	647,252	588,981
Available-for-sale, at fair value	3,844,248	3,701,886
Trading account, at fair value	70,601	34,559
	4,562,101	4,325,426
Loans held for sale	132,504	171,328
Loans and leases, net of unearned income and fees	40,064,016	39,043,365
Less allowance for loan losses	604,663	746,291
Loans, net of allowance	39,459,353	38,297,074
Other noninterest-bearing investments	865,950	855,642
Premises and equipment, net	829,809	726,372
Goodwill	1,014,129	1,014,129
Core deposit and other intangibles	25,520	36,444
Other real estate owned	18,916	46,105
Other assets	894,262	926,228
	\$57,208,874	\$56,031,127
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Noninterest-bearing demand	\$20,528,287	\$18,758,753
Interest-bearing:		
Savings and money market	24,583,636	23,029,928
Time	2,406,924	2,593,038
Foreign	328,391	1,980,161
	47,847,238	46,361,880
Federal funds and other short-term borrowings	244,223	340,348
Long-term debt	1,092,282	2,273,575
Reserve for unfunded lending commitments	81,076	89,705
Other liabilities	574,525	501,056
Total liabilities	49,839,344	49,566,564
Shareholders' equity:		
Preferred stock, without par value, authorized 4,400,000 shares	1,004,011	1,003,970
Common stock, without par value; authorized 350,000,000 shares; issued and outstanding 203,014,903 and 184,677,696 shares	4,723,855	4,179,024

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Retained earnings	1,769,705	1,473,670
Accumulated other comprehensive income (loss)	(128,041 )	(192,101 )
Total shareholders' equity	7,369,530	6,464,563
	\$57,208,874	\$56,031,127

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	Year Ended December 31,		
	2014	2013	2012
Interest income:			
Interest and fees on loans	\$1,729,643	\$1,814,600	\$1,889,884
Interest on money market investments	21,414	23,363	21,080
Interest on securities	101,936	103,442	127,758
Total interest income	1,852,993	1,941,405	2,038,722
Interest expense:			
Interest on deposits	49,736	58,913	80,146
Interest on short- and long-term borrowings	123,262	186,164	226,636
Total interest expense	172,998	245,077	306,782
Net interest income	1,679,995	1,696,328	1,731,940
Provision for loan losses	(98,082)	) (87,136)	) 14,227
Net interest income after provision for loan losses	1,778,077	1,783,464	1,717,713
Noninterest income:			
Service charges and fees on deposit accounts	174,024	176,339	176,401
Other service charges, commissions and fees	191,516	181,473	174,420
Wealth management income	30,573	29,913	28,402
Loan sales and servicing income	26,049	35,293	39,929
Capital markets and foreign exchange	22,416	28,051	26,810
Dividends and other investment income	43,662	46,062	55,825
Fair value and nonhedge derivative loss	(11,390)	) (18,152)	) (21,782)
Equity securities gains, net	13,471	8,520	11,253
Fixed income securities gains (losses), net	10,419	(2,898)	) 19,544
Impairment losses on investment securities	(27)	) (188,606)	) (166,257)
Less amounts recognized in other comprehensive income	—	23,472	62,196
Net impairment losses on investment securities	(27)	) (165,134)	) (104,061)
Other	7,925	17,940	13,129
Total noninterest income	508,638	337,407	419,870
Noninterest expense:			
Salaries and employee benefits	956,428	912,918	885,661
Occupancy, net	115,701	112,303	112,947
Furniture, equipment and software	115,312	106,629	108,990
Other real estate expense	(1,251)	) 1,712	19,723
Credit-related expense	27,985	33,653	50,518
Provision for unfunded lending commitments	(8,629)	) (17,104)	) 4,387
Professional and legal services	66,011	67,968	52,509
Advertising	25,100	23,362	25,720
FDIC premiums	32,174	38,019	43,401
Amortization of core deposit and other intangibles	10,923	14,375	17,010
Debt extinguishment cost	44,422	120,192	—
Other	281,116	300,412	275,151
Total noninterest expense	1,665,292	1,714,439	1,596,017
Income before income taxes	621,423	406,432	541,566
Income taxes	222,961	142,977	193,416
Net income	398,462	263,455	348,150

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Net loss applicable to noncontrolling interests	—	(336	) (1,366	)
Net income applicable to controlling interest	398,462	263,791	349,516	
Preferred stock dividends	(71,894	) (95,512	) (170,885	)
Preferred stock redemption	—	125,700	—	
Net earnings applicable to common shareholders	\$326,568	\$293,979	\$178,631	
Weighted average common shares outstanding during the year:				
Basic shares	192,207	183,844	183,081	
Diluted shares	192,789	184,297	183,236	
Net earnings per common share:				
Basic	\$1.68	\$1.58	\$0.97	
Diluted	1.68	1.58	0.97	
See accompanying notes to consolidated financial statements.				

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Table of ContentsZIONS BANCORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Net income	\$398,462	\$263,455	\$348,150
Other comprehensive income, net of tax:			
Net unrealized holding gains on investment securities	82,204	145,902	128,992
Noncredit-related impairment losses on investment securities not expected to be sold	—	(13,751)	(38,406)
Reclassification to earnings for realized net fixed income securities losses (gains)	(6,447)	1,775	(12,204)
Reclassification to earnings for net credit-related impairment losses on investment securities	17	99,903	63,564
Accretion of securities with noncredit-related impairment losses not expected to be sold	1,111	1,258	6,863
Net unrealized gains (losses) on other noninterest-bearing investments	(390)	(4,503)	338
Net unrealized holding gains (losses) on derivative instruments	2,664	(431)	247
Reclassification adjustment for increase in interest income recognized in earnings on derivative instruments	(1,605)	(1,580)	(7,857)
Pension and postretirement	(13,494)	25,483	4,390
Other comprehensive income	64,060	254,056	145,927
Comprehensive income	462,522	517,511	494,077
Comprehensive loss applicable to noncontrolling interests	—	(336)	(1,366)
Comprehensive income applicable to controlling interest	\$462,522	\$517,847	\$495,443
See accompanying notes to consolidated financial statements.			

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

(In thousands, except shares and per share amounts)	Preferred stock	Common stock		Retained earnings	Accumulated other comprehensive income (loss)	Noncontrolling interests	Total shareholders' equity
		Shares	Amount				
Balance at December 31, 2011	\$2,377,560	184,135,388	\$4,163,242	\$1,036,590	\$(592,084)	\$(2,080)	\$6,983,228
Net income (loss) applicable to controlling interest				349,516		(1,366 )	348,150
Other comprehensive loss, net of tax					145,927		145,927
Issuance of preferred stock	143,750		(2,408 )				141,342
Preferred stock redemption	(1,542,500 )		3,830	(3,830 )			(1,542,500 )
Subordinated debt converted to preferred stock	104,796		(15,232 )				89,564
Net activity under employee plans and related tax benefits		63,810	16,677				16,677
Dividends on preferred stock	44,696			(170,885 )			(126,189 )
Dividends on common stock, \$0.04 per share				(7,392 )			(7,392 )
Change in deferred compensation				(184 )			(184 )
Other changes in noncontrolling interests						18	18
Balance at December 31, 2012	1,128,302	184,199,198	4,166,109	1,203,815	(446,157 )	(3,428 )	6,048,641
Net income (loss) applicable to controlling interest				263,791		(336 )	263,455
Other comprehensive income, net of tax					254,056		254,056
Issuance of preferred stock	800,000		(15,682 )				784,318
Preferred stock redemption	(925,748 )		580	125,700			(799,468 )
Subordinated debt converted to preferred stock	1,416		(206 )				1,210
Net activity under employee plans and related tax benefits		478,498	32,389				32,389
Dividends on preferred stock	—			(95,512 )			(95,512 )
				(24,094 )			(24,094 )

Dividends on common stock, \$0.13 per share							
Change in deferred compensation				(30 )			(30 )
Other changes in noncontrolling interests			(4,166 )			3,764	(402 )
Balance at December 31, 2013	1,003,970	184,677,696	4,179,024	1,473,670	(192,101 )	—	6,464,563
Net income (loss) applicable to controlling interest				398,462		—	398,462
Other comprehensive income, net of tax					64,060		64,060
Issuance of common stock	—	17,617,450	515,856				515,856
Subordinated debt converted to preferred stock	41		(7 )				34
Net activity under employee plans and related tax benefits		719,757	28,982				28,982
Dividends on preferred stock				(71,894 )			(71,894 )
Dividends on common stock, \$0.16 per share				(31,216 )			(31,216 )
Change in deferred compensation				683			683
Other changes in noncontrolling interests			—			—	—
Balance at December 31, 2014	\$1,004,011	203,014,903	\$4,723,855	\$1,769,705	\$(128,041)	\$—	\$7,369,530

See accompanying notes to consolidated financial statements.

Table of ContentsZIONS BANCORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Year Ended December 31,		
	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$398,462	\$263,455	\$348,150
Adjustments to reconcile net income to net cash provided by operating activities:			
Debt extinguishment cost	44,422	120,192	—
Net impairment losses on investment securities, goodwill, and long-lived assets	27	165,134	106,545
Provision for credit losses	(106,711 )	(104,240 )	18,614
Depreciation and amortization	128,648	130,616	185,185
Deferred income tax expense (benefit)	25,938	(60,117 )	9,788
Net decrease (increase) in trading securities	(36,045 )	(6,286 )	11,983
Net decrease (increase) in loans held for sale	38,610	80,323	(31,445 )
Change in other liabilities	42,470	(2,051 )	27,439
Change in other assets	(51,004 )	255,564	71,772
Other, net	(30,710 )	(2,325 )	(11,836 )
Net cash provided by operating activities	454,107	840,265	736,195
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net decrease (increase) in money market investments	(103,129 )	297,036	(1,631,278 )
Proceeds from maturities and paydowns of investment securities held-to-maturity	108,404	130,938	128,278
Purchases of investment securities held-to-maturity	(164,704 )	(155,328 )	(86,790 )
Proceeds from sales, maturities, and paydowns of investment securities available-for-sale	1,779,327	1,104,010	1,212,047
Purchases of investment securities available-for-sale	(1,794,525 )	(1,325,704 )	(932,034 )
Net change in loans and leases	(1,079,103 )	(1,452,184 )	(725,802 )
Net purchases of premises and equipment	(175,799 )	(88,580 )	(68,894 )
Proceeds from sales of other real estate owned	54,056	110,058	204,818
Net cash received from (paid for) divestitures	—	3,786	(19,901 )
Other, net	34,916	19,109	40,014
Net cash used in investing activities	(1,340,557 )	(1,356,859 )	(1,879,542 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net increase in deposits	1,485,358	228,807	3,286,823
Net change in short-term funds borrowed	(96,125 )	(12,274 )	(370,264 )
Proceeds from issuance of long-term debt	—	646,408	757,610
Repayments of long-term debt	(1,223,275 )	(832,122 )	(372,891 )
Debt extinguishment cost paid	(35,435 )	(45,812 )	—
Cash paid for preferred stock redemptions	—	(799,468 )	(1,542,500 )
Proceeds from the issuance of common and preferred stock	526,438	794,143	143,240
Dividends paid on common and preferred stock	(96,130 )	(119,660 )	(133,581 )
Other, net	(3,559 )	(10,252 )	(7,533 )
Net cash provided by (used in) financing activities	557,272	(150,230 )	1,760,904
Net increase (decrease) in cash and due from banks	(329,178 )	(666,824 )	617,557

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Cash and due from banks at beginning of year	1,175,083	1,841,907	1,224,350
Cash and due from banks at end of year	\$845,905	\$1,175,083	\$1,841,907
Cash paid for interest	\$152,783	\$191,897	\$214,673
Net cash paid for income taxes	182,954	181,318	183,348
See accompanying notes to consolidated financial statements.			

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ZIONS BANCORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Zions Bancorporation (“the Parent”) is a financial holding company headquartered in Salt Lake City, Utah, which provides a full range of banking and related services through its 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”). Pursuant to a Board resolution adopted November 21, 2014, TCBO will merge into TCBW effective March 31, 2015. The Parent and its subsidiary banks also own and operate certain nonbank subsidiaries that engage in financial services.

Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of the Parent and its majority-owned subsidiaries (“the Company,” “we,” “our,” “us”). Unconsolidated investments in which there is a greater than 20% ownership are accounted for by the equity method of accounting; those in which there is less than 20% ownership are accounted for under cost, fair value, or equity methods of accounting. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and prevailing practices within the financial services industry. References to GAAP, including standards promulgated by the Financial Accounting Standards Board (“FASB”), are made according to sections of the Accounting Standards Codification (“ASC”). Changes to the ASC are made with Accounting Standards Updates (“ASU”) that include consensus issues of the Emerging Issues Task Force (“EITF”). In certain cases, ASUs are issued jointly with International Financial Reporting Standards (“IFRS”).

In preparing the consolidated financial statements, we are required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Certain prior year amounts have been reclassified to conform to the current year presentation.

Variable Interest Entities

A variable interest entity (“VIE”) is consolidated when a company is the primary beneficiary of the VIE. Current accounting guidance requires continuous analysis on a qualitative rather than a quantitative basis to determine the primary beneficiary of a VIE. At the commencement of our involvement and periodically thereafter, we consider our consolidation conclusions for all entities with which we are involved. As of December 31, 2014 and 2013, no VIEs have been consolidated in the Company’s financial statements.

Statement of Cash Flows

For purposes of presentation in the consolidated statements of cash flows, “cash and cash equivalents” are defined as those amounts included in cash and due from banks in the consolidated balance sheets.

Security Resell Agreements

Security resell agreements represent overnight and term agreements with the majority maturing within 30 days. These agreements are generally treated as collateralized financing transactions and are carried at amounts at which the securities were acquired plus accrued interest. Either the Company, or in some instances third parties on its behalf,



take possession of the underlying securities. The fair value of such securities is monitored throughout the

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contract term to ensure that asset values remain sufficient to protect against counterparty default. We are permitted by contract to sell or repledge certain securities that we accept as collateral for security resell agreements. If sold, our obligation to return the collateral is recorded as “securities sold, not yet purchased” and included as a liability in “Federal funds and other short-term borrowings.” At December 31, 2014, we held approximately \$1.2 billion of securities for which we were permitted by contract to sell or repledge. Security resell agreements averaged approximately \$58 million during 2014, and the maximum amount outstanding at any month-end during 2014 was approximately \$1.2 billion.

### Investment Securities

We classify our investment securities according to their purpose and holding period. Gains or losses on the sale of securities are recognized using the specific identification method and recorded in noninterest income.

Held-to-maturity (“HTM”) debt securities are stated at adjusted cost, net of unamortized premiums and unaccreted discounts. The Company has the intent and ability to hold such securities until recovery of their amortized cost basis. However, see further discussion in Note 5 regarding the Company’s change in intent prior to December 31, 2013 for certain collateralized debt obligation (“CDO”) securities.

Available-for-sale (“AFS”) securities are stated at fair value and generally consist of debt securities held for investment and marketable equity securities not accounted for under the equity method. Unrealized gains and losses of AFS securities, after applicable taxes, are recorded as a component of other comprehensive income (“OCI”).

We review quarterly our investment securities portfolio for any declines in value that are considered to be other-than-temporary impairment (“OTTI”). The process, methodology and factors considered to evaluate securities for OTTI are discussed further in Note 5. Noncredit-related OTTI on securities we intend to sell and credit-related OTTI regardless of intent are recognized in earnings. OTTI is recognized as a realized loss through earnings when our best estimate of discounted cash flows expected to be collected is less than our amortized cost basis. Noncredit-related OTTI on securities not expected to be sold is recognized in OCI.

Trading securities are stated at fair value and consist of securities acquired for short-term appreciation or other trading purposes. Realized and unrealized gains and losses are recorded in trading income, which is included in capital markets and foreign exchange.

The fair values of investment securities, as estimated under current accounting guidance, are discussed in Note 20.

### Loans and Allowance for Credit Losses

Loans are reported at the principal amount outstanding, net of unearned income. Unearned income, which includes deferred fees net of deferred direct loan origination costs, is amortized to interest income over the life of the loan using the interest method. Interest income is recognized on an accrual basis.

At the time of origination, we determine whether loans will be held for investment or held for sale. We may subsequently change our intent to hold loans for investment and reclassify them as held for sale. Loans held for sale are carried at the lower of aggregate cost or fair value. A valuation allowance is recorded when cost exceeds fair value based on reviews at the time of reclassification and periodically thereafter. Gains and losses are recorded in noninterest income based on the difference between sales proceeds and carrying value.

Loans that become other than current with respect to contractual payments due may be accounted for separately depending on the status of the loan, which is determined from certain credit quality indicators and analysis under the circumstances. The loan status includes past due, nonaccrual, impaired, modified, and restructured (including troubled

debt restructurings “TDRs”). Our accounting policies for these loan types and our estimation of the related allowance for loan losses are discussed further in Note 6.

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In the ordinary course of business, we transfer portions of loans under participation agreements to manage credit risk and our portfolio concentration. We evaluate the loan participations to determine if they meet the appropriate accounting guidance to qualify as sales. Certain purchased loans require separate accounting procedures that are also discussed in Note 6.

The allowance for credit losses includes the allowance for loan losses and the reserve for unfunded lending commitments, and represents our estimate of losses inherent in the loan portfolio that may be recognized from loans and lending commitments that are not recoverable. Further discussion of our estimation process for the allowance for credit losses is included in Note 6.

### Other Noninterest-Bearing Investments

These investments include investments in private equity funds (referred to in this document as private equity investments, or “PEIs”), venture capital securities, securities acquired for various debt and regulatory requirements, bank-owned life insurance, and certain other noninterest-bearing investments. See further discussion in Notes 5, 17 and 20.

Certain private equity investments and venture capital securities are accounted for under the equity method and reported at estimated fair value in the absence of readily ascertainable fair values. Changes in fair value and gains and losses from sales are recognized in noninterest income. The values assigned to the securities where no market quotations exist are based upon available information and may not necessarily represent amounts that will ultimately be realized. Such estimated amounts depend on future circumstances and will not be realized until the individual securities are liquidated.

Bank-owned life insurance is accounted for at fair value based on the cash surrender values of the insurance policies. A third party service provides these values based on the valuations and earnings of the underlying assets.

Other private equity investments and those acquired for various debt and regulatory requirements are accounted for at cost. Periodic reviews are conducted for impairment by comparing carrying values with estimates of fair value determined according to the previous discussion.

### Premises and Equipment

Premises and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation, computed primarily on the straight-line method, is charged to operations over the estimated useful lives of the properties, generally 25 to 40 years for buildings, 3 to 10 years for furniture and equipment, and 3 to 10 years for software, including capitalized costs related to the Company’s new lending and deposit systems. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter.

### Goodwill and Identifiable Intangible Assets

Goodwill and intangible assets deemed to have indefinite lives are not amortized. We subject these assets to annual specified impairment tests as of the beginning of the fourth quarter and more frequently if changing conditions warrant. Core deposit assets and other intangibles with finite useful lives are generally amortized on an accelerated basis using an estimated useful life of up to 12 years.

### Business Combinations

Business combinations are accounted for under the acquisition method of accounting. Upon initially obtaining control, we recognize 100% of all acquired assets and all assumed liabilities regardless of the percentage owned. The assets and liabilities are recorded at their estimated fair values, with goodwill being recorded when such fair values are less than the cost of acquisition. Certain transaction and restructuring costs are expensed as incurred. Changes to estimated fair values from a business combination are recognized as an adjustment to goodwill over the measurement period, which cannot exceed one year from the acquisition date. Results of operations of the acquired business are included in our statement of income from the date of acquisition.



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### Other Real Estate Owned

Other real estate owned (“OREO”) consists principally of commercial and residential real estate obtained in partial or total satisfaction of loan obligations. Amounts are recorded at the lower of cost or fair value (less any selling costs) based on property appraisals at the time of transfer and periodically thereafter.

### Derivative Instruments

We use derivative instruments, including interest rate swaps and floors and basis swaps, as part of our overall interest rate risk management strategy. These instruments enable us to manage to desired asset and liability duration and to reduce interest rate risk exposure by matching estimated repricing periods of interest-sensitive assets and liabilities. We also execute derivative instruments with commercial banking customers to facilitate their risk management strategies. These derivatives are immediately hedged by offsetting derivatives with third parties such that we minimize our net risk exposure as a result of such transactions. We record all derivatives at fair value in the balance sheet as either other assets or other liabilities. See further discussion in Note 7.

### Commitments and Letters of Credit

In the ordinary course of business, we enter into commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable. The credit risk associated with these commitments is evaluated in a manner similar to the allowance for loan losses. The reserve for unfunded lending commitments is presented separately in the balance sheet.

### Revenue Recognition

Service charges and fees on deposit accounts are recognized in accordance with published deposit account agreements for customer accounts or contractual agreements for commercial accounts. Other service charges, commissions and fees include interchange fees, bank services, and other fees which are generally recognized when earned.

### Share-Based Compensation

Share-based compensation generally includes grants of stock options, restricted stock, restricted stock units, and other awards to employees and nonemployee directors. We recognize compensation expense in the statement of income based on the fair value of the associated share-based awards. See further discussion in Note 16.

### Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between financial statement asset and liability amounts and their respective tax bases, and are measured using enacted tax laws and rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are recognized subject to management’s judgment that realization is more-likely-than-not. Unrecognized tax benefits for uncertain tax positions relate primarily to state tax contingencies. See further discussion in Note 14.

### Net Earnings Per Common Share

Net earnings per common share is based on net earnings applicable to common shareholders, which is net of preferred stock dividends. Basic net earnings per common share is based on the weighted average outstanding common shares during each year. Unvested share-based awards with rights to receive nonforfeitable dividends are considered participating securities and included in the computation of basic earnings per share. Diluted net earnings per common share is based on the weighted average outstanding common shares during each year, including common stock equivalents. Stock options, restricted stock, restricted stock units, and stock warrants are converted to common stock equivalents using the treasury method. Diluted net earnings per common share excludes common stock equivalents whose effect is antidilutive. See further discussion in Note 15.



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## 2. RECENT ACCOUNTING PRONOUNCEMENTS

Standard	Description	Date of adoption	Effect on the financial statements or other significant matters
Standards that are not yet adopted			
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. No early adoption is permitted.	January 1, 2017	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 that were adopted			
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	We have adopted this standard and will provide the necessary disclosures in our first quarter 2015 reporting; however, the amounts involved and the difference in disclosures are not expected to be significant.
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 and may be applied on either a prospective or a modified retrospective basis, with early adoption permitted.	January 1, 2015	We have adopted this standard and will provide the necessary disclosures in our first quarter 2015 reporting; however, the difference in disclosures is not expected to be significant.



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

We have adopted this standard; however, it is not expected to have a significant effect on the Company’s financial statements in our first quarter 2015 reporting.

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## 3. SUPPLEMENTAL CASH FLOW INFORMATION

Noncash activities are summarized as follows:

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Loans transferred to other real estate owned	\$25,189	\$60,749	\$172,018
Loans and leases transferred to (from) loans held for sale	(26,272 )	36,301	—
Beneficial conversion feature transferred from common stock to preferred stock as a result of subordinated debt conversions	7	206	15,232
Subordinated debt converted to preferred stock	34	1,210	89,564
Preferred stock transferred to common stock as a result of the Series C preferred stock redemption	—	580	—
Preferred stock/beneficial conversion feature transferred to retained earnings as result of the Series C preferred stock redemption	—	125,700	—
Adjusted cost of HTM securities transferred to AFS securities	—	181,915	—

## 4. OFFSETTING ASSETS AND LIABILITIES

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

(In thousands)	December 31, 2014			Gross amounts not offset in the balance sheet			
	Description	Gross amounts recognized	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Financial instruments	Cash collateral received/pledged	Net amount
Assets:							
Federal funds sold and security resell agreements	\$1,386,291	\$—	\$1,386,291	\$—	\$ —		\$1,386,291
Derivatives (included in other assets)	66,420	—	66,420	(3,755 )	—		62,665
	\$1,452,711	\$—	\$1,452,711	\$(3,755 )	\$ —		\$1,448,956
Liabilities:							
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

December 31, 2013

(In thousands)	December 31, 2013			Gross amounts not offset in the balance sheet		
	Description	Gross amounts recognized	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Financial instruments	Cash collateral received/pledged

sheet

## Assets:

Federal funds sold and other short-term borrowings	\$282,248	\$—	\$282,248	\$—	\$ —	\$282,248
Derivatives (included in other assets)	65,683	—	65,683	(11,650 )	2,210	56,243
	\$347,931	\$—	\$347,931	\$(11,650 )	\$ 2,210	\$338,491

## Liabilities:

Federal funds and other short-term borrowings	\$340,348	\$—	\$340,348	\$—	\$ —	\$340,348
Derivatives (included in other liabilities)	68,397	—	68,397	(11,650 )	(26,997 )	29,750
	\$408,745	\$—	\$			