

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended September 30, 2015

or

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

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

COMMISSION FILE NUMBER 001-12307

**ZIONS BANCORPORATION**

(Exact name of registrant as specified in its charter)

**UTAH**

(State or other jurisdiction of  
incorporation or organization)

**87-0227400**

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

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

(Address of principal executive offices)

**84133**

(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

Common Stock, without par value, outstanding at November 2, 2015

204,294,516 shares

# ZIONS BANCORPORATION AND SUBSIDIARIES

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**PART I. FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS (Unaudited)**

**ZIONS BANCORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
	<b>(Unaudited)</b>	
<i>(In thousands, except shares)</i>		
<b>ASSETS</b>		
Cash and due from banks	\$ 602,694	\$ 841,942
Money market investments:		
Interest-bearing deposits	6,558,678	7,178,097
Federal funds sold and security resell agreements	1,325,501	1,386,291
Investment securities:		
Held-to-maturity, at amortized cost (approximate fair value \$553,088 and \$677,196)	544,168	647,252
Available-for-sale, at fair value	6,000,011	3,844,248
Trading account, at fair value	73,521	70,601
	<u>6,617,700</u>	<u>4,562,101</u>
Loans held for sale	139,122	132,504
Loans and leases, net of unearned income and fees	40,113,123	40,063,658
Less allowance for loan losses	<u>596,440</u>	<u>604,663</u>
Loans, net of allowance	39,516,683	39,458,995
Other noninterest-bearing investments	851,225	865,950
Premises and equipment, net	873,800	829,809
Goodwill	1,014,129	1,014,129
Core deposit and other intangibles	18,546	25,520
Other real estate owned	12,799	18,916
Other assets	<u>880,050</u>	<u>894,620</u>
	<u>\$ 58,410,927</u>	<u>\$ 57,208,874</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Noninterest-bearing demand	\$ 21,572,022	\$ 20,529,124
Interest-bearing:		
Savings and money market	24,690,359	24,583,636
Time	2,216,206	2,406,924
Foreign	<u>441,560</u>	<u>328,391</u>
	48,920,147	47,848,075
Federal funds and other short-term borrowings	272,391	244,223
Long-term debt	944,752	1,092,282
Reserve for unfunded lending commitments	81,389	81,076
Other liabilities	<u>554,153</u>	<u>573,688</u>
Total liabilities	<u>50,772,832</u>	<u>49,839,344</u>
Shareholders' equity:		
Preferred stock, without par value, authorized 4,400,000 shares	1,004,159	1,004,011
Common stock, without par value; authorized 350,000,000 shares; issued and outstanding 204,278,594 and 203,014,903 shares	4,756,288	4,723,855
Retained earnings	1,894,623	1,769,705
Accumulated other comprehensive income (loss)	<u>(16,975)</u>	<u>(128,041)</u>
Total shareholders' equity	<u>7,638,095</u>	<u>7,369,530</u>
	<u>\$ 58,410,927</u>	<u>\$ 57,208,874</u>

See accompanying notes to consolidated financial statements.

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

(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income:				
Interest and fees on loans	\$ 419,981	\$ 430,416	\$ 1,256,378	\$ 1,298,567
Interest on money market investments	6,018	5,483	17,021	15,501
Interest on securities	30,231	24,377	86,513	76,973
Total interest income	<u>456,230</u>	<u>460,276</u>	<u>1,359,912</u>	<u>1,391,041</u>
Interest expense:				
Interest on deposits	12,542	12,313	36,967	37,188
Interest on short- and long-term borrowings	18,311	31,144	56,518	104,280
Total interest expense	<u>30,853</u>	<u>43,457</u>	<u>93,485</u>	<u>141,468</u>
Net interest income	425,377	416,819	1,266,427	1,249,573
Provision for loan losses	18,262	(54,643)	17,334	(109,669)
Net interest income after provision for loan losses	<u>407,115</u>	<u>471,462</u>	<u>1,249,093</u>	<u>1,359,242</u>
Noninterest income:				
Service charges and fees on deposit accounts	43,196	43,468	126,006	126,068
Other service charges, commissions and fees	52,837	51,639	152,028	143,847
Wealth management income	7,496	7,438	23,271	22,495
Loan sales and servicing income	7,728	7,592	23,816	22,020
Capital markets and foreign exchange	6,624	5,400	19,400	16,319
Dividends and other investment income	8,449	11,324	27,164	27,183
Fair value and nonhedge derivative income (loss)	(1,555)	44	(799)	(10,429)
Equity securities gains, net	3,630	440	11,822	3,865
Fixed income securities gains (losses), net	(53)	(13,901)	(138,728)	22,039
Impairment losses on investment securities	—	—	—	(27)
Less amounts recognized in other comprehensive income	—	—	—	—
Net impairment losses on investment securities	—	—	—	(27)
Other	2,461	2,627	9,076	5,854
Total noninterest income	<u>130,813</u>	<u>116,071</u>	<u>253,056</u>	<u>379,234</u>
Noninterest expense:				
Salaries and employee benefits	242,023	245,518	736,675	717,680
Occupancy, net	29,477	28,495	88,911	85,739
Furniture, equipment and software	30,416	28,524	91,376	84,454
Other real estate expense, net	(40)	875	(111)	2,216
Credit-related expense	6,914	6,508	20,959	20,615
Provision for unfunded lending commitments	1,428	(16,095)	313	(10,328)
Professional and legal services	12,699	16,588	37,292	39,754
Advertising	6,136	6,094	19,622	19,295
FDIC premiums	8,500	8,204	25,228	24,143
Amortization of core deposit and other intangibles	2,298	2,665	6,974	8,283
Debt extinguishment cost	—	44,422	2,395	44,422
Other	56,298	66,738	168,076	206,353
Total noninterest expense	<u>396,149</u>	<u>438,536</u>	<u>1,197,710</u>	<u>1,242,626</u>
Income before income taxes	141,779	148,997	304,439	495,850
Income taxes	40,780	53,109	97,455	179,202
Net income	100,999	95,888	206,984	316,648
Dividends on preferred stock	(16,761)	(16,761)	(48,567)	(56,841)
Net earnings applicable to common shareholders	<u>\$ 84,238</u>	<u>\$ 79,127</u>	<u>\$ 158,417</u>	<u>\$ 259,807</u>
Weighted average common shares outstanding during the period:				
Basic shares	203,668	196,687	203,057	188,643
Diluted shares	204,155	197,271	203,511	189,260
Net earnings per common share:				
Basic	\$ 0.41	\$ 0.40	\$ 0.77	\$ 1.36
Diluted	0.41	0.40	0.77	1.36

See accompanying notes to consolidated financial statements.

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

<i>(In thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net income for the period	\$ 100,999	\$ 95,888	\$ 206,984	\$ 316,648
Other comprehensive income, net of tax:				
Net unrealized holding gains on investment securities	11,268	18,265	4,460	100,723
Reclassification of HTM securities to AFS securities	—	—	10,938	—
Reclassification to earnings for realized net fixed income securities losses (gains)	33	7,886	85,845	(20,058)
Reclassification to earnings for net credit-related impairment losses on investment securities	—	—	—	17
Accretion of securities with noncredit-related impairment losses not expected to be sold	—	276	—	835
Net unrealized gains (losses) on other noninterest-bearing investments	(1,881)	454	94	(333)
Net unrealized holding gains (losses) on derivative instruments	10,607	(508)	12,941	1,011
Reclassification adjustment for increase in interest income recognized in earnings on derivative instruments	(1,830)	(463)	(3,212)	(1,021)
Other comprehensive income	<u>18,197</u>	<u>25,910</u>	<u>111,066</u>	<u>81,174</u>
Comprehensive income	<u>\$ 119,196</u>	<u>\$ 121,798</u>	<u>\$ 318,050</u>	<u>\$ 397,822</u>

*See accompanying notes to consolidated financial statements.*

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

<i>(In thousands, except shares and per share amounts)</i>	Preferred stock	Common stock		Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
		Shares	Amount			
Balance at December 31, 2014	\$ 1,004,011	203,014,903	\$ 4,723,855	\$ 1,769,705	\$ (128,041)	\$ 7,369,530
Net income for the period				206,984		206,984
Other comprehensive income, net of tax					111,066	111,066
Subordinated debt converted to preferred stock	148		(44)			104
Net activity under employee plans and related tax benefits		1,263,691	32,477			32,477
Dividends on preferred stock				(48,567)		(48,567)
Dividends on common stock, \$0.16 per share				(32,785)		(32,785)
Change in deferred compensation				(714)		(714)
Balance at September 30, 2015	<u>\$ 1,004,159</u>	<u>204,278,594</u>	<u>\$ 4,756,288</u>	<u>\$ 1,894,623</u>	<u>\$ (16,975)</u>	<u>\$ 7,638,095</u>
Balance at December 31, 2013	\$ 1,003,970	184,677,696	\$ 4,179,024	\$ 1,473,670	\$ (192,101)	\$ 6,464,563
Net income for the period				316,648		316,648
Other comprehensive income, net of tax					81,174	81,174
Issuance of common stock		17,617,450	515,856			515,856
Subordinated debt converted to preferred stock	36		(5)			31
Net activity under employee plans and related tax benefits		603,345	22,420			22,420
Dividends on preferred stock				(56,841)		(56,841)
Dividends on common stock, \$0.12 per share				(23,039)		(23,039)
Change in deferred compensation				1,347		1,347
Balance at September 30, 2014	<u>\$ 1,004,006</u>	<u>202,898,491</u>	<u>\$ 4,717,295</u>	<u>\$ 1,711,785</u>	<u>\$ (110,927)</u>	<u>\$ 7,322,159</u>

See accompanying notes to consolidated financial statements.

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

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income for the period	\$ 100,999	\$ 95,888	\$ 206,984	\$ 316,648
Adjustments to reconcile net income to net cash provided by operating activities:				
Debt extinguishment cost	—	44,422	2,395	44,422
Provision for credit losses	19,690	(70,738)	17,647	(119,997)
Depreciation and amortization	40,281	33,860	109,563	97,414
Fixed income securities losses (gains), net	53	13,901	138,728	(22,039)
Deferred income tax expense (benefit)	(10,027)	2,960	(51,056)	22,368
Net decrease (increase) in trading securities	970	1,241	(2,950)	(20,868)
Net decrease in loans held for sale	23,314	53,820	3,263	60,774
Change in other liabilities	21,525	33,919	(14,738)	(24,598)
Change in other assets	31,178	4,739	(1,991)	(8,721)
Other, net	(15,461)	(5,745)	(21,475)	6,528
Net cash provided by operating activities	212,522	208,267	386,370	351,931
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net decrease (increase) in money market investments	1,181,378	(955,971)	680,209	635,594
Proceeds from maturities and paydowns of investment securities held-to-maturity	26,875	20,796	87,785	58,921
Purchases of investment securities held-to-maturity	(142)	(14,964)	(24,203)	(78,228)
Proceeds from sales, maturities, and paydowns of investment securities available-for-sale	385,584	374,973	1,365,851	1,417,234
Purchases of investment securities available-for-sale	(1,728,939)	(451,212)	(3,486,509)	(1,125,036)
Net change in loans and leases	(122,868)	(126,173)	(74,974)	(738,706)
Purchases of premises and equipment	(38,747)	(26,153)	(106,115)	(138,884)
Proceeds from sales of other real estate owned	8,019	8,200	16,592	37,112
Other, net	17,610	12,799	46,935	19,796
Net cash provided by (used in) investing activities	(271,230)	(1,157,705)	(1,494,429)	87,803
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Net increase (decrease) in deposits	(16,977)	594,422	1,072,072	(96,321)
Net change in short-term funds borrowed	45,267	(66,603)	28,168	(148,550)
Repayments of long-term debt	(111,477)	(834,964)	(164,082)	(1,196,123)
Debt extinguishment costs paid	—	(35,435)	(2,395)	(35,435)
Proceeds from the issuance of common stock	13,599	519,559	19,631	524,080
Dividends paid on common and preferred stock	(27,420)	(23,243)	(79,699)	(71,191)
Other, net	172	112	(4,884)	(3,579)
Net cash provided by (used in) financing activities	(96,836)	153,848	868,811	(1,027,119)
Net decrease in cash and due from banks	(155,544)	(795,590)	(239,248)	(587,385)
Cash and due from banks at beginning of period	758,238	1,381,262	841,942	1,173,057
Cash and due from banks at end of period	\$ 602,694	\$ 585,672	\$ 602,694	\$ 585,672
Cash paid for interest	\$ 22,162	\$ 41,138	\$ 73,219	\$ 122,807
Net cash paid for income taxes	8,679	58,645	100,505	181,301

See accompanying notes to consolidated financial statements.

ZIONS BANCORPORATION AND SUBSIDIARIES  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

September 30, 2015

## 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Zions Bancorporation (“the Parent”) and its majority-owned subsidiaries (collectively “the Company,” “Zions,” “we,” “our,” “us”) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. References to GAAP, including standards promulgated by the Financial Accounting Standards Board (“FASB”), are made according to sections of the Accounting Standards Codification (“ASC”) and to Accounting Standards Updates (“ASU”), which include consensus issues of the Emerging Issues Task Force (“EITF”). In certain cases, ASUs are issued jointly with International Financial Reporting Standards (“IFRS”). Certain prior period amounts have been reclassified to conform with the current period presentation. These reclassifications did not affect net income.

Operating results for the three and nine months ended September 30, 2015 and 2014 are not necessarily indicative of the results that may be expected in future periods. The consolidated balance sheet at December 31, 2014 is from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s 2014 Annual Report on Form 10-K.

The Company provides a full range of banking and related services through subsidiary banks in 11 Western and Southwestern states as follows: Zions First National Bank (“Zions Bank”), in Utah, Idaho and Wyoming; Amegy Corporation (“Amegy”) and its subsidiary, Amegy Bank, in Texas; California Bank & Trust (“CB&T”); National Bank of Arizona (“NBAZ”); Nevada State Bank (“NSB”); Vectra Bank Colorado (“Vectra”), in Colorado and New Mexico; and The Commerce Bank of Washington (“TCBW”), in Washington and Oregon. Effective April 1, 2015, The Commerce Bank of Oregon (“TCBO”) was merged into TCBW. The Parent and its subsidiary banks also own and operate certain nonbank subsidiaries that engage in financial services. On June 1, 2015, the Company announced certain efficiency and restructuring initiatives that included, among other things, the mergers of its seven subsidiary banks into Zions Bank, whose name will be changed to ZB, N.A. Regional brand names according to geographic location will continue to be used. The Company has received approvals from the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation and expects to complete the mergers following the close of business on December 31, 2015.

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

Standard	Description	Date of adoption	Effect on the financial statements or other significant matters
<b>Standards not yet adopted by the Company</b>			
ASU 2015-07, <i>Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)</i> , (Topic 820)	The guidance eliminates the current requirement to categorize within the fair value hierarchy investments whose fair values are measured at net asset value (“NAV”) using the practical expedient in ASC 820. Fair value disclosure of these investments will be made to facilitate reconciliation to amounts reported on the balance sheet. Other related disclosures will continue when the NAV practical expedient is used. Adoption is retrospective and early adoption is permitted.	January 1, 2016	We do not currently expect this new disclosure guidance will have a material impact on the Company’s financial statements.



ZIONS BANCORPORATION AND SUBSIDIARIES

Standard	Description	Date of adoption	Effect on the financial statements or other significant matters
<b>Standards not yet adopted by the Company (continued)</b>			
ASU 2015-05, <i>Customer's Accounting for Fees Paid in a Cloud Computing Arrangement</i> (Subtopic 350-40)	The standard provides guidance to determine whether an arrangement includes a software license. If it does, the customer accounts for it the same way as for other software licenses. If no software license is included, the customer accounts for it as a service contract. Adoption may be retrospective or prospective. Early adoption is permitted.	January 1, 2016	We are currently evaluating the impact this new guidance may have on the Company's financial statements.
ASU 2015-03, <i>Simplifying the Presentation of Debt Issuance Costs</i> (Subtopic 835-30)	The standard requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the associated debt liability, consistent with debt discounts. Adoption is retrospective and early adoption is permitted.	January 1, 2016	We currently include debt issuance costs in other assets. The amount to be reclassified to the debt liability is not material to the Company's financial statements.
ASU 2015-02, <i>Amendments to the Consolidation Analysis</i> (Topic 810)	The new standard changes certain criteria in the variable interest model and the voting model to determine whether certain legal entities are variable interest entities ("VIEs") and whether they should be consolidated. Additional disclosures are required for entities not currently considered VIEs, but may become VIEs under the new guidance and may be subject to consolidation. Adoption may be retrospective or modified retrospective with a cumulative effect adjustment. Early adoption is permitted.	January 1, 2016	We currently do not consolidate any VIEs and do not expect this new guidance will have a material impact on the Company's financial statements.
ASU 2014-09, <i>Revenue from Contracts with Customers</i> (Topic 606)	The core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The banking industry does not expect significant changes because major sources of revenue are from financial instruments that have been excluded from the scope of the new standard, (including loans, derivatives, debt and equity securities, etc.). However, the new standard affects other fees charged by banks, such as asset management fees, credit card interchange fees, deposit account fees, etc. Adoption may be made on a full retrospective basis with practical expedients, or on a modified retrospective basis with a cumulative effect adjustment. Early adoption of the guidance is permitted as of January 1, 2017.	January 1, 2018, as extended in August 2015 by ASU 2015-14	While we currently do not expect this standard will have a material impact on the Company's financial statements, we are still in process of conducting our evaluation.
<b>Standards adopted by the Company</b>			
ASU 2014-14, <i>Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure</i> (Subtopic 310-40)	The standard addresses the classification of certain foreclosed mortgage loans fully or partially guaranteed under government programs. Under certain such programs, qualifying creditors can extend mortgage loans with a guarantee entitling the creditor to recover all or a portion of the unpaid principal balance from the government if the borrower defaults. A separate other receivable is established that is measured based on the amount of the loans expected to be recovered.	January 1, 2015	Our adoption of this standard had no impact on the accompanying financial statements.

## ZIONS BANCORPORATION AND SUBSIDIARIES

Standard	Description	Date of adoption	Effect on the financial statements or other significant matters
<b>Standards adopted by the Company (continued)</b>			
ASU 2014-04, <i>Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure</i> (Subtopic 310-40)	The standard clarifies that a creditor should be considered to have physical possession of a residential real estate property collateralizing a residential mortgage loan and thus would reclassify the loan to other real estate owned when certain conditions are satisfied. Additional financial statement disclosures will be required.	January 1, 2015	Our adoption of this standard added a nominal amount of additional disclosure to Note 6.
ASU 2014-01, <i>Accounting for Investments in Qualified Affordable Housing Projects</i> (Topic 323)	The standard revised conditions an entity must meet to elect the effective yield method when accounting for qualified affordable housing project investments. The EITF final consensus changed the method of amortizing a Low-Income Housing Tax Credit (“LIHTC”) investment from the effective yield method to a proportional amortization method. Amortization would be proportional to the tax credits and tax benefits received but, under a practical expedient available in certain circumstances, amortization could be proportional to only the tax credits. Reporting entities that invest in LIHTC investments through a limited liability entity could elect the proportional amortization method if certain conditions are met.	January 1, 2015	Our adoption of this standard did not have a material impact on the accompanying financial statements.

### 3. SUPPLEMENTAL CASH FLOW INFORMATION

Noncash activities are summarized as follows:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Loans and leases transferred to other real estate owned	\$ 3,446	\$ 8,954	\$ 10,098	\$ 20,197
Loans held for sale reclassified as loans and leases	22,299	9,658	33,042	14,739
Amortized cost of HTM securities reclassified as AFS securities	—	—	79,276	—

### 4. OFFSETTING ASSETS AND LIABILITIES

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

(In thousands)	September 30, 2015						
	Description	Gross amounts recognized	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Gross amounts not offset in the balance sheet		Net amount
					Financial instruments	Cash collateral received/pledged	
<b>Assets:</b>							
Federal funds sold and security resell agreements	\$ 1,325,501	\$ —	\$ 1,325,501	\$ —	\$ —	\$ 1,325,501	
Derivatives (included in other assets)	103,119	—	103,119	(17,207)	—	85,912	
	<u>\$ 1,428,620</u>	<u>\$ —</u>	<u>\$ 1,428,620</u>	<u>\$ (17,207)</u>	<u>\$ —</u>	<u>\$ 1,411,413</u>	
<b>Liabilities:</b>							
Federal funds and other short-term borrowings	\$ 272,391	\$ —	\$ 272,391	\$ —	\$ —	\$ 272,391	
Derivatives (included in other liabilities)	86,363	—	86,363	(17,207)	(37,109)	32,047	
	<u>\$ 358,754</u>	<u>\$ —</u>	<u>\$ 358,754</u>	<u>\$ (17,207)</u>	<u>\$ (37,109)</u>	<u>\$ 304,438</u>	

## ZIONS BANCORPORATION AND SUBSIDIARIES

<i>(In thousands)</i>	December 31, 2014						
	Description	Gross amounts recognized	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Gross amounts not offset in the balance sheet		Net amount
					Financial instruments	Cash collateral received/pledged	
<b>Assets:</b>							
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	
	<u>\$ 1,452,711</u>	<u>\$ —</u>	<u>\$ 1,452,711</u>	<u>\$ (3,755)</u>	<u>\$ —</u>	<u>\$ 1,448,956</u>	
<b>Liabilities:</b>							
Federal funds and other short-term borrowings	\$ 244,223	\$ —	\$ 244,223	\$ —	\$ —	\$ 244,223	
Derivatives (included in other liabilities)	66,064	—	66,064	(3,755)	(31,968)	30,341	
	<u>\$ 310,287</u>	<u>\$ —</u>	<u>\$ 310,287</u>	<u>\$ (3,755)</u>	<u>\$ (31,968)</u>	<u>\$ 274,564</u>	

Security resell and repurchase agreements are offset, when applicable, in the balance sheet according to master netting agreements. Security repurchase agreements are included with “Federal funds and other short-term borrowings.” Derivative instruments may be offset under their master netting agreements; however, for accounting purposes, we present these items on a gross basis in the Company’s balance sheet. See Note 7 for further information regarding derivative instruments.

## 5. INVESTMENTS

### Investment Securities

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

<i>(In thousands)</i>	September 30, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
<b>Held-to-maturity</b>				
Municipal securities	\$ 544,168	\$ 9,976	\$ 1,056	\$ 553,088
<b>Available-for-sale</b>				
U.S. Government agencies and corporations:				
Agency securities	1,102,978	7,147	578	1,109,547
Agency guaranteed mortgage-backed securities	2,805,901	12,989	5,619	2,813,271
Small Business Administration loan-backed securities	1,815,766	14,177	10,779	1,819,164
Municipal securities	212,698	1,059	359	213,398
Other debt securities	25,485	187	2,905	22,767
	<u>5,962,828</u>	<u>35,559</u>	<u>20,240</u>	<u>5,978,147</u>
Money market mutual funds and other	21,773	91	—	21,864
	<u>5,984,601</u>	<u>35,650</u>	<u>20,240</u>	<u>6,000,011</u>
Total	<u>\$ 6,528,769</u>	<u>\$ 45,626</u>	<u>\$ 21,296</u>	<u>\$ 6,553,099</u>

## ZIONS BANCORPORATION AND SUBSIDIARIES

<i>(In thousands)</i>	December 31, 2014						
	Amortized cost	Recognized in OCI <sup>1</sup>		Carrying value	Not recognized in OCI		Estimated fair value
		Gross unrealized gains	Gross unrealized losses		Gross unrealized gains	Gross unrealized losses	
<b>Held-to-maturity</b>							
Municipal securities	\$ 607,675	\$ —	\$ —	\$ 607,675	\$ 13,018	\$ 804	\$ 619,889
Asset-backed securities:							
Trust preferred securities – banks and insurance	79,276	—	39,699	39,577	18,393	663	57,307
	<u>686,951</u>	<u>—</u>	<u>39,699</u>	<u>647,252</u>	<u>\$ 31,411</u>	<u>\$ 1,467</u>	<u>677,196</u>
<b>Available-for-sale</b>							
U.S. Government agencies and corporations:							
Agency securities	607,523	1,572	8,343	600,752			600,752
Agency guaranteed mortgage-backed securities	935,164	12,132	2,105	945,191			945,191
Small Business Administration loan-backed securities	1,544,710	16,446	8,891	1,552,265			1,552,265
Municipal securities	189,059	1,143	945	189,257			189,257
Asset-backed securities:							
Trust preferred securities – banks and insurance	537,589	103	121,984	415,708			415,708
Other	5,252	207	7	5,452			5,452
	<u>3,819,297</u>	<u>31,603</u>	<u>142,275</u>	<u>3,708,625</u>			<u>3,708,625</u>
Money market mutual funds and other	136,591	76	1,044	135,623			135,623
	<u>3,955,888</u>	<u>31,679</u>	<u>143,319</u>	<u>3,844,248</u>			<u>3,844,248</u>
Total	<u>\$ 4,642,839</u>	<u>\$ 31,679</u>	<u>\$ 183,018</u>	<u>\$ 4,491,500</u>			<u>\$ 4,521,444</u>

<sup>1</sup> Other comprehensive income

#### CDO Sales and Paydowns

During the second quarter of 2015, we sold the remaining portfolio of our collateralized debt obligation (“CDO”) securities, or \$574 million at amortized cost, and realized net losses of approximately \$137 million.

During the first quarter of 2015, we reclassified all of the remaining held-to-maturity (“HTM”) CDO securities, or approximately \$79 million at amortized cost, to available-for-sale (“AFS”) securities. The reclassification resulted from increased risk weights for these securities under the new Basel III capital rules, and was made in accordance with applicable accounting guidance that allows for such reclassifications when increased risk weights of debt securities must be used for regulatory risk-based capital purposes. No gain or loss was recognized in the statement of income at the time of reclassification.

During the first nine months of 2014, we recorded a total of \$1,294 million par amount of sales and paydowns of CDO securities, resulting in net gains of approximately \$22 million. These sales were made in part as a result of the Volcker Rule (“VR”).

#### Maturities

The amortized cost and estimated fair value of investment debt securities are shown subsequently as of September 30, 2015 by expected timing of principal payments. Actual principal payments may differ from contractual or expected principal payments because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

## ZIONS BANCORPORATION AND SUBSIDIARIES

	Held-to-maturity		Available-for-sale	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
<i>(In thousands)</i>				
Principal return in one year or less	\$ 88,169	\$ 88,714	\$ 822,647	\$ 824,744
Principal return after one year through five years	168,734	171,164	2,314,091	2,319,836
Principal return after five years through ten years	152,942	158,331	1,857,898	1,862,624
Principal return after ten years	134,323	134,879	968,192	970,943
	<u>\$ 544,168</u>	<u>\$ 553,088</u>	<u>\$ 5,962,828</u>	<u>\$ 5,978,147</u>

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

<i>(In thousands)</i>	September 30, 2015					
	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value
<b>Held-to-maturity</b>						
Municipal securities	\$ 901	\$ 55,763	\$ 155	\$ 11,681	\$ 1,056	\$ 67,444
<b>Available-for-sale</b>						
U.S. Government agencies and corporations:						
Agency securities	65	34,737	513	137,964	578	172,701
Agency guaranteed mortgage-backed securities	5,361	1,330,271	258	15,351	5,619	1,345,622
Small Business Administration loan-backed securities	4,550	453,651	6,229	452,275	10,779	905,926
Municipal securities	305	34,703	54	4,125	359	38,828
Other debt securities	—	—	2,905	12,097	2,905	12,097
	<u>10,281</u>	<u>1,853,362</u>	<u>9,959</u>	<u>621,812</u>	<u>20,240</u>	<u>2,475,174</u>
Total	<u>\$ 11,182</u>	<u>\$ 1,909,125</u>	<u>\$ 10,114</u>	<u>\$ 633,493</u>	<u>\$ 21,296</u>	<u>\$ 2,542,618</u>

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

At September 30, 2015 and December 31, 2014, respectively, 146 and 153 HTM and 460 and 458 AFS investment securities were in an unrealized loss position.

### ***Other-Than-Temporary Impairment***

#### *Ongoing Policy*

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

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

#### *OTTI Conclusions*

Our 2014 Annual Report on Form 10-K describes in more detail our OTTI evaluation process. The following summarizes the conclusions from our OTTI evaluation by each security type that has significant gross unrealized losses at September 30, 2015:

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

*Agency Guaranteed Mortgage-Backed Securities:* These pass-through securities are comprised largely of fixed and floating-rate residential mortgage-backed securities issued by the Government National Mortgage Association (“GNMA”), the Federal National Mortgage Association, or the Federal Home Loan Mortgage Corporation. They were generally purchased at premiums with maturity dates from 10 to 15 years for fixed-rate securities and 30 years for floating-rate securities. These securities benefit from certain guarantee provisions or, in the case of GNMA, direct U.S. government guarantees. Unrealized losses relate to changes in interest rates subsequent to purchase and are not attributable to credit. At September 30, 2015, we did not have an intent to sell identified securities with unrealized losses or initiate such sales, and we believe it is more likely than not we would not be required to sell such securities before recovery of their amortized cost basis. Therefore, we did not record OTTI for these securities during the third quarter of 2015.

*Small Business Administration (“SBA”) Loan-Backed Securities:* These securities were generally purchased at premiums with maturities from 5 to 25 years and have principal cash flows guaranteed by the SBA. Unrealized losses relate to changes in interest rates subsequent to purchase and are not attributable to credit. At September 30, 2015, we did not have an intent to sell identified SBA securities with unrealized losses or initiate such sales, and we believe it is more likely than not we would not be required to sell such securities before recovery of their amortized cost basis. Therefore, we did not record OTTI for these securities during the third quarter of 2015.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

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

<i>(In thousands)</i>	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	HTM	AFS	Total	HTM	AFS	Total
Balance of credit-related OTTI at beginning of period	\$ —	\$ —	\$ —	\$ (9,079)	\$ (95,472)	\$ (104,551)
Reductions for securities sold or paid off during the period	—	—	—	—	104,551	104,551
Reclassification of securities from HTM to AFS	—	—	—	9,079	(9,079)	—
Balance of credit-related OTTI at end of period	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

<i>(In thousands)</i>	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	HTM	AFS	Total	HTM	AFS	Total
Balance of credit-related OTTI at beginning of period	\$ (9,079)	\$ (163,914)	\$ (172,993)	\$ (9,052)	\$ (176,833)	\$ (185,885)
Additions recognized in earnings during the period:						
Additional credit-related OTTI on securities previously impaired	—	—	—	(27)	—	(27)
Reductions for securities sold or paid off during the period	—	44,929	44,929	—	57,848	57,848
Balance of credit-related OTTI at end of period	<u>\$ (9,079)</u>	<u>\$ (118,985)</u>	<u>\$ (128,064)</u>	<u>\$ (9,079)</u>	<u>\$ (118,985)</u>	<u>\$ (128,064)</u>

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

<i>(In thousands)</i>	Three Months Ended				Nine Months Ended			
	September 30, 2015		September 30, 2014		September 30, 2015		September 30, 2014	
	Gross gains	Gross losses	Gross gains	Gross losses	Gross gains	Gross losses	Gross gains	Gross losses
Investment securities:								
Held-to-maturity	\$ —	\$ —	\$ 2	\$ —	\$ 1	\$ —	\$ 2	\$ 27
Available-for-sale	6	59	5,873	20,063	8,366	147,572	83,466	62,948
Other noninterest-bearing investments	14,267	10,637	5,911	5,184	23,870	11,571	10,568	5,184
	<u>14,273</u>	<u>10,696</u>	<u>11,786</u>	<u>25,247</u>	<u>32,237</u>	<u>159,143</u>	<u>94,036</u>	<u>68,159</u>
Net gains (losses)	<u>\$ 3,577</u>		<u>\$ (13,461)</u>		<u>\$ (126,906)</u>		<u>\$ 25,877</u>	
Statement of income information:								
Net impairment losses on investment securities	\$ —		\$ —		\$ —		\$ (27)	
Equity securities gains, net		3,630		440		11,822		3,865
Fixed income securities gains (losses), net		(53)		(13,901)		(138,728)		22,039
Net gains (losses)	<u>\$ 3,577</u>		<u>\$ (13,461)</u>		<u>\$ (126,906)</u>		<u>\$ 25,877</u>	

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## ZIONS BANCORPORATION AND SUBSIDIARIES

Interest income by security type is as follows:

<i>(In thousands)</i>	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Taxable	Nontaxable	Total	Taxable	Nontaxable	Total
Investment securities:						
Held-to-maturity	\$ 3,031	\$ 2,629	\$ 5,660	\$ 9,716	\$ 8,265	\$ 17,981
Available-for-sale	23,427	699	24,126	64,832	2,047	66,879
Trading	445	—	445	1,653	—	1,653
	<u>\$ 26,903</u>	<u>\$ 3,328</u>	<u>\$ 30,231</u>	<u>\$ 76,201</u>	<u>\$ 10,312</u>	<u>\$ 86,513</u>

<i>(In thousands)</i>	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Taxable	Nontaxable	Total	Taxable	Nontaxable	Total
Investment securities:						
Held-to-maturity	\$ 3,597	\$ 2,805	\$ 6,402	\$ 11,146	\$ 8,448	\$ 19,594
Available-for-sale	16,895	677	17,572	54,099	1,829	55,928
Trading	403	—	403	1,451	—	1,451
	<u>\$ 20,895</u>	<u>\$ 3,482</u>	<u>\$ 24,377</u>	<u>\$ 66,696</u>	<u>\$ 10,277</u>	<u>\$ 76,973</u>

Investment securities with a carrying value of \$1.9 billion at September 30, 2015 and \$1.4 billion at December 31, 2014 were pledged to secure public and trust deposits, advances, and for other purposes as required by law. Securities are also pledged as collateral for security repurchase agreements.

### Private Equity Investments

#### *Effect of Volcker Rule*

The VR, as published pursuant to the Dodd-Frank Act in December 2013 and amended in January 2014, significantly restricted certain activities by covered bank holding companies, including restrictions on certain types of securities, proprietary trading, and private equity investing. The Company's private equity investments ("PEIs") consist of Small Business Investment Companies ("SBICs") and non-SBICs. Following the sales of its CDO securities, the only prohibited investments under the VR requiring divestiture by the Company were certain of its PEIs. Of the recorded PEIs of \$140 million at September 30, 2015, approximately \$24 million remain prohibited by the VR.

As of September 30, 2015, we have sold a total of approximately \$17 million of PEIs, including \$9 million during the first half of 2015 and \$8 million during 2014. None were sold during the third quarter of 2015. All of these sales related to prohibited PEIs. The 2015 sales resulted in insignificant amounts of realized gains or losses. We will dispose of the remaining \$24 million of prohibited PEIs before the required deadline. However, the required deadline has been extended to July 21, 2016 from July 21, 2015 and the Federal Reserve has announced its intention to act in 2015 to grant an additional one-year extension to July 21, 2017. See other discussions in Notes 10 and 11.

As discussed in Note 11, we have \$48 million at September 30, 2015 of unfunded commitments for PEIs, of which approximately \$8 million relate to prohibited PEIs. Until we dispose of the prohibited PEIs, we expect to fund these commitments if and as the capital calls are made, as allowed under the VR.



**6. LOANS AND ALLOWANCE FOR CREDIT LOSSES*****Loans and Loans Held for Sale***

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

<i>(In thousands)</i>	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Loans held for sale	\$ 139,122	\$ 132,504
Commercial:		
Commercial and industrial	\$ 13,035,251	\$ 13,162,955
Leasing	426,781	408,974
Owner occupied	7,141,360	7,351,548
Municipal	600,258	520,887
Total commercial	<u>21,203,650</u>	<u>21,444,364</u>
Commercial real estate:		
Construction and land development	2,213,465	1,986,408
Term	8,089,258	8,126,600
Total commercial real estate	<u>10,302,723</u>	<u>10,113,008</u>
Consumer:		
Home equity credit line	2,347,061	2,321,150
1-4 family residential	5,268,840	5,200,882
Construction and other consumer real estate	370,015	370,542
Bankcard and other revolving plans	427,849	401,352
Other	192,985	212,360
Total consumer	<u>8,606,750</u>	<u>8,506,286</u>
Total loans	<u>\$ 40,113,123</u>	<u>\$ 40,063,658</u>

Loan balances are presented net of unearned income and fees, which amounted to \$144.1 million at September 30, 2015 and \$144.7 million at December 31, 2014.

Owner occupied and commercial real estate (“CRE”) loans include unamortized premiums of approximately \$28.8 million at September 30, 2015 and \$36.5 million at December 31, 2014.

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

Land development loans included in the construction and land development loan class were \$383.1 million at September 30, 2015 and \$484.9 million at December 31, 2014.

Loans with a carrying value of approximately \$22.3 billion at September 30, 2015 and \$22.5 billion at December 31, 2014 have been pledged at the Federal Reserve and various Federal Home Loan Banks (“FHLBs”) as collateral for potential borrowings.

We sold loans with a carrying value of \$434.1 million and \$1,070.2 million for the three and nine months ended September 30, 2015, and \$341.3 million and \$939.0 million, for the three and nine months ended September 30, 2014, respectively, that were classified as loans held for sale. The sold loans were derecognized from the balance sheet. Loans classified as loans held for sale primarily consist of conforming residential mortgages and the guaranteed portion of SBA loans. The principal balance of sold loans for which we retain servicing was approximately \$1.2 billion at both September 30, 2015 and December 31, 2014.

Amounts added to loans held for sale during these periods were \$442.4 million and \$1,111.0 million for the three and nine months ended September 30, 2015, and \$297.8 million and \$894.9 million for the three and nine months ended September 30, 2014, respectively. Income from loans sold, excluding servicing, was \$5.0 million and \$13.9

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million for the three and nine months ended September 30, 2015, and \$4.2 million and \$11.3 million for the three and nine months ended September 30, 2014, respectively.

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

***Allowance for Credit Losses***

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

***Allowance for Loan and Lease Losses***

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

We determine our ALLL as the best estimate within a range of estimated losses. The methodologies we use to estimate the ALLL depend upon the impairment status and portfolio segment of the loan. The methodology for impaired loans is discussed subsequently. For the commercial and CRE segments, we use a comprehensive loan grading system to assign probability of default (“PD”) and loss given default (“LGD”) grades to each loan. The credit quality indicators discussed subsequently are based on this grading system. In addition, loan officers utilize their experience and judgment in assigning PD and LGD grades, subject to confirmation of the PD and LGD by either credit risk or credit examination. We create groupings of these grades for each subsidiary bank and loan class and calculate historic loss rates using a loss migration analysis that attributes historic realized losses to these loan grade groupings over the period of January 2008 through the most recent full quarter.

For the consumer loan segment, we use roll rate models to forecast probable inherent losses. Roll rate models measure the rate at which consumer loans migrate from one delinquency category to the next worse delinquency category, and eventually to loss. We estimate roll rates for consumer loans using recent delinquency and loss experience by segmenting our consumer loan portfolio into separate pools based on common risk characteristics and separately calculating historical delinquency and loss experience for each pool. These roll rates are then applied to current delinquency levels to estimate probable inherent losses. When long-term average losses exceed those losses estimated through roll rates, we use long-term average loss rates for the applicable pools. Roll rates incorporate housing market trends inasmuch as these trends manifest themselves in charge-offs and delinquencies. In addition, our qualitative and environmental factors discussed subsequently incorporate the most recent housing market trends.

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

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- Asset quality trends
- Risk management and loan administration practices
- Risk identification practices
- Effect of changes in the nature and volume of the portfolio
- Existence and effect of any portfolio concentrations
- National economic and business conditions
- Regional and local economic and business conditions
- Data availability and applicability
- Effects of other external factors

The magnitude of the impact of these factors on our qualitative assessment of the ALLL changes from quarter to quarter according to changes made by management in its assessment of these factors, the extent these factors are already reflected in historic loss rates, and the extent changes in these factors diverge from one to another. We also consider the uncertainty inherent in the estimation process when evaluating the ALLL.

*Reserve for Unfunded Lending Commitments*

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

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

	<b>Three Months Ended September 30, 2015</b>			
	<b>Commercial</b>	<b>Commercial real estate</b>	<b>Consumer</b>	<b>Total</b>
<i>(In thousands)</i>				
<b>Allowance for loan losses</b>				
Balance at beginning of period	\$ 437,770	\$ 125,796	\$ 45,809	\$ 609,375
Additions:				
Provision for loan losses	22,417	(6,621)	2,466	18,262
Adjustment for FDIC-supported/PCI loans	—	—	—	—
Deductions:				
Gross loan and lease charge-offs	(36,961)	(1,068)	(4,330)	(42,359)
Recoveries	4,471	4,162	2,529	11,162
Net loan and lease charge-offs	(32,490)	3,094	(1,801)	(31,197)
Balance at end of period	<u>\$ 427,697</u>	<u>\$ 122,269</u>	<u>\$ 46,474</u>	<u>\$ 596,440</u>
<b>Reserve for unfunded lending commitments</b>				
Balance at beginning of period	\$ 60,774	\$ 18,639	\$ 548	\$ 79,961
Provision charged (credited) to earnings	2,808	(1,467)	87	1,428
Balance at end of period	<u>\$ 63,582</u>	<u>\$ 17,172</u>	<u>\$ 635</u>	<u>\$ 81,389</u>
<b>Total allowance for credit losses at end of period</b>				
Allowance for loan losses	\$ 427,697	\$ 122,269	\$ 46,474	\$ 596,440
Reserve for unfunded lending commitments	<u>63,582</u>	<u>17,172</u>	<u>635</u>	<u>81,389</u>
Total allowance for credit losses	<u>\$ 491,279</u>	<u>\$ 139,441</u>	<u>\$ 47,109</u>	<u>\$ 677,829</u>

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## Nine Months Ended September 30, 2015

<i>(In thousands)</i>	<u>Commercial</u>	<u>Commercial real estate</u>	<u>Consumer</u>	<u>Total</u>
<b>Allowance for loan losses</b>				
Balance at beginning of period	\$ 412,514	\$ 145,009	\$ 47,140	\$ 604,663
Additions:				
Provision for loan losses	53,292	(38,491)	2,533	17,334
Adjustment for FDIC-supported/PCI loans	(57)	57	—	—
Deductions:				
Gross loan and lease charge-offs	(76,734)	(5,637)	(11,224)	(93,595)
Recoveries	38,682	21,331	8,025	68,038
Net loan and lease charge-offs	(38,052)	15,694	(3,199)	(25,557)
Balance at end of period	<u>\$ 427,697</u>	<u>\$ 122,269</u>	<u>\$ 46,474</u>	<u>\$ 596,440</u>
<b>Reserve for unfunded lending commitments</b>				
Balance at beginning of period	\$ 58,931	\$ 21,517	\$ 628	\$ 81,076
Provision charged (credited) to earnings	4,651	(4,345)	7	313
Balance at end of period	<u>\$ 63,582</u>	<u>\$ 17,172</u>	<u>\$ 635</u>	<u>\$ 81,389</u>
<b>Total allowance for credit losses at end of period</b>				
Allowance for loan losses	\$ 427,697	\$ 122,269	\$ 46,474	\$ 596,440
Reserve for unfunded lending commitments	63,582	17,172	635	81,389
Total allowance for credit losses	<u>\$ 491,279</u>	<u>\$ 139,441</u>	<u>\$ 47,109</u>	<u>\$ 677,829</u>

## Three Months Ended September 30, 2014

<i>(In thousands)</i>	<u>Commercial</u>	<u>Commercial real estate</u>	<u>Consumer</u>	<u>Total</u>
<b>Allowance for loan losses</b>				
Balance at beginning of period	\$ 442,965	\$ 187,940	\$ 45,002	\$ 675,907
Additions:				
Provision for loan losses	(19,960)	(34,187)	(496)	(54,643)
Adjustment for FDIC-supported/PCI loans	(25)	—	—	(25)
Deductions:				
Gross loan and lease charge-offs	(20,084)	(3,320)	(3,067)	(26,471)
Recoveries	9,149	3,332	3,028	15,509
Net loan and lease charge-offs	(10,935)	12	(39)	(10,962)
Balance at end of period	<u>\$ 412,045</u>	<u>\$ 153,765</u>	<u>\$ 44,467</u>	<u>\$ 610,277</u>
<b>Reserve for unfunded lending commitments</b>				
Balance at beginning of period	\$ 52,801	\$ 38,689	\$ 3,982	\$ 95,472
Provision charged (credited) to earnings	1,651	(14,390)	(3,356)	(16,095)
Balance at end of period	<u>\$ 54,452</u>	<u>\$ 24,299</u>	<u>\$ 626</u>	<u>\$ 79,377</u>
<b>Total allowance for credit losses at end of period</b>				
Allowance for loan losses	\$ 412,045	\$ 153,765	\$ 44,467	\$ 610,277
Reserve for unfunded lending commitments	54,452	24,299	626	79,377
Total allowance for credit losses	<u>\$ 466,497</u>	<u>\$ 178,064</u>	<u>\$ 45,093</u>	<u>\$ 689,654</u>

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	Nine Months Ended September 30, 2014			
<i>(In thousands)</i>	Commercial	Commercial real estate	Consumer	Total
<b>Allowance for loan losses</b>				
Balance at beginning of period	\$ 469,213	\$ 216,012	\$ 61,066	\$ 746,291
Additions:				
Provision for loan losses	(38,274)	(57,350)	(14,045)	(109,669)
Adjustment for FDIC-supported/PCI loans	(1,190)	—	(96)	(1,286)
Deductions:				
Gross loan and lease charge-offs	(45,903)	(14,135)	(10,628)	(70,666)
Recoveries	28,199	9,238	8,170	45,607
Net loan and lease charge-offs	(17,704)	(4,897)	(2,458)	(25,059)
Balance at end of period	<u>\$ 412,045</u>	<u>\$ 153,765</u>	<u>\$ 44,467</u>	<u>\$ 610,277</u>
<b>Reserve for unfunded lending commitments</b>				
Balance at beginning of period	\$ 48,345	\$ 37,485	\$ 3,875	\$ 89,705
Provision charged (credited) to earnings	6,107	(13,186)	(3,249)	(10,328)
Balance at end of period	<u>\$ 54,452</u>	<u>\$ 24,299</u>	<u>\$ 626</u>	<u>\$ 79,377</u>
<b>Total allowance for credit losses at end of period</b>				
Allowance for loan losses	\$ 412,045	\$ 153,765	\$ 44,467	\$ 610,277
Reserve for unfunded lending commitments	54,452	24,299	626	79,377
Total allowance for credit losses	<u>\$ 466,497</u>	<u>\$ 178,064</u>	<u>\$ 45,093</u>	<u>\$ 689,654</u>

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

	September 30, 2015			
<i>(In thousands)</i>	Commercial	Commercial real estate	Consumer	Total
<b>Allowance for loan losses:</b>				
Individually evaluated for impairment	\$ 32,191	\$ 2,898	\$ 11,014	\$ 46,103
Collectively evaluated for impairment	394,836	119,286	35,010	549,132
Purchased loans with evidence of credit deterioration	670	85	450	1,205
Total	<u>\$ 427,697</u>	<u>\$ 122,269</u>	<u>\$ 46,474</u>	<u>\$ 596,440</u>
<b>Outstanding loan balances:</b>				
Individually evaluated for impairment	\$ 279,928	\$ 122,063	\$ 92,612	\$ 494,603
Collectively evaluated for impairment	20,859,442	10,122,697	8,503,160	39,485,299
Purchased loans with evidence of credit deterioration	64,280	57,963	10,978	133,221
Total	<u>\$ 21,203,650</u>	<u>\$ 10,302,723</u>	<u>\$ 8,606,750</u>	<u>\$ 40,113,123</u>

## ZIONS BANCORPORATION AND SUBSIDIARIES

<i>(In thousands)</i>	December 31, 2014			
	Commercial	Commercial real estate	Consumer	Total
Allowance for loan losses:				
Individually evaluated for impairment	\$ 28,627	\$ 4,027	\$ 9,059	\$ 41,713
Collectively evaluated for impairment	382,552	140,090	37,508	560,150
Purchased loans with evidence of credit deterioration	1,335	892	573	2,800
Total	<u>\$ 412,514</u>	<u>\$ 145,009</u>	<u>\$ 47,140</u>	<u>\$ 604,663</u>
Outstanding loan balances:				
Individually evaluated for impairment	\$ 259,207	\$ 167,435	\$ 95,267	\$ 521,909
Collectively evaluated for impairment	21,105,217	9,861,862	8,395,371	39,362,450
Purchased loans with evidence of credit deterioration	79,940	83,711	15,648	179,299
Total	<u>\$ 21,444,364</u>	<u>\$ 10,113,008</u>	<u>\$ 8,506,286</u>	<u>\$ 40,063,658</u>

**Nonaccrual and Past Due Loans**

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

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

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

Nonaccrual loans are summarized as follows:

<i>(In thousands)</i>	September 30, 2015	December 31, 2014
Commercial:		
Commercial and industrial	\$ 167,136	\$ 105,591
Leasing	306	295
Owner occupied	76,624	87,243
Municipal	967	1,056
Total commercial	<u>245,033</u>	<u>194,185</u>
Commercial real estate:		
Construction and land development	15,202	23,880
Term	39,053	25,107
Total commercial real estate	<u>54,255</u>	<u>48,987</u>
Consumer:		
Home equity credit line	9,792	11,430
1-4 family residential	48,592	49,861
Construction and other consumer real estate	765	1,735
Bankcard and other revolving plans	563	196
Other	272	254
Total consumer loans	<u>59,984</u>	<u>63,476</u>
Total	<u>\$ 359,272</u>	<u>\$ 306,648</u>

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

		September 30, 2015					
<i>(In thousands)</i>	Current	30-89 days past due	90+ days past due	Total past due	Total loans	Accruing loans 90+ days past due	Nonaccrual loans that are current <sup>1</sup>
Commercial:							
Commercial and industrial	\$ 12,909,622	\$ 79,246	\$ 46,383	\$ 125,629	\$ 13,035,251	\$ 4,951	\$ 90,584
Leasing	423,071	3,557	153	3,710	426,781	—	55
Owner occupied	7,077,386	33,198	30,776	63,974	7,141,360	5,443	46,283
Municipal	600,210	48	—	48	600,258	—	967
Total commercial	<u>21,010,289</u>	<u>116,049</u>	<u>77,312</u>	<u>193,361</u>	<u>21,203,650</u>	<u>10,394</u>	<u>137,889</u>
Commercial real estate:							
Construction and land development	2,195,193	12,447	5,825	18,272	2,213,465	2,296	10,914
Term	8,039,923	15,578	33,757	49,335	8,089,258	20,503	23,188
Total commercial real estate	<u>10,235,116</u>	<u>28,025</u>	<u>39,582</u>	<u>67,607</u>	<u>10,302,723</u>	<u>22,799</u>	<u>34,102</u>
Consumer:							
Home equity credit line	2,336,740	4,694	5,627	10,321	2,347,061	—	2,592
1-4 family residential	5,231,005	10,137	27,698	37,835	5,268,840	877	18,739
Construction and other consumer real estate	364,283	5,524	208	5,732	370,015	—	401
Bankcard and other revolving plans	425,041	1,621	1,187	2,808	427,849	787	114
Other	192,042	877	66	943	192,985	—	46
Total consumer loans	<u>8,549,111</u>	<u>22,853</u>	<u>34,786</u>	<u>57,639</u>	<u>8,606,750</u>	<u>1,664</u>	<u>21,892</u>
Total	<u>\$ 39,794,516</u>	<u>\$ 166,927</u>	<u>\$ 151,680</u>	<u>\$ 318,607</u>	<u>\$ 40,113,123</u>	<u>\$ 34,857</u>	<u>\$ 193,883</u>
		December 31, 2014					
<i>(In thousands)</i>	Current	30-89 days past due	90+ days past due	Total past due	Total loans	Accruing loans 90+ days past due	Nonaccrual loans that are current <sup>1</sup>
Commercial:							
Commercial and industrial	\$ 13,092,731	\$ 28,295	\$ 41,929	\$ 70,224	\$ 13,162,955	\$ 4,677	\$ 64,385
Leasing	408,724	225	25	250	408,974	—	270
Owner occupied	7,275,842	29,182	46,524	75,706	7,351,548	3,334	39,649
Municipal	520,887	—	—	—	520,887	—	1,056
Total commercial	<u>21,298,184</u>	<u>57,702</u>	<u>88,478</u>	<u>146,180</u>	<u>21,444,364</u>	<u>8,011</u>	<u>105,360</u>
Commercial real estate:							
Construction and land development	1,972,206	2,711	11,491	14,202	1,986,408	92	12,481
Term	8,082,940	14,415	29,245	43,660	8,126,600	19,700	13,787
Total commercial real estate	<u>10,055,146</u>	<u>17,126</u>	<u>40,736</u>	<u>57,862</u>	<u>10,113,008</u>	<u>19,792</u>	<u>26,268</u>
Consumer:							
Home equity credit line	2,309,967	4,503	6,680	11,183	2,321,150	1	1,779
1-4 family residential	5,163,610	12,416	24,856	37,272	5,200,882	318	20,599
Construction and other consumer real estate	359,723	9,675	1,144	10,819	370,542	160	608
Bankcard and other revolving plans	397,882	2,425	1,045	3,470	401,352	946	80
Other	211,560	644	156	800	212,360	—	84
Total consumer loans	<u>8,442,742</u>	<u>29,663</u>	<u>33,881</u>	<u>63,544</u>	<u>8,506,286</u>	<u>1,425</u>	<u>23,150</u>
Total	<u>\$ 39,796,072</u>	<u>\$ 104,491</u>	<u>\$ 163,095</u>	<u>\$ 267,586</u>	<u>\$ 40,063,658</u>	<u>\$ 29,228</u>	<u>\$ 154,778</u>

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

***Credit Quality Indicators***

In addition to the past due and nonaccrual criteria, we also analyze loans using loan risk grading systems, which vary based on the size and type of credit risk exposure. The internal risk grades assigned to loans follow our definitions of Pass, Special Mention, Substandard, and Doubtful, which are consistent with published definitions of regulatory risk classifications.

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

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

*Special Mention* – A Special Mention asset has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the bank’s credit position at some future date.

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

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

We generally assign internal risk grades to commercial and CRE loans with commitments equal to or greater than \$750,000 based on financial and statistical models, individual credit analysis, and loan officer judgment. For these larger loans, we assign one of multiple grades within the Pass classification or one of the following four grades: Special Mention, Substandard, Doubtful, and Loss. Loss indicates that the outstanding balance has been charged off. We confirm our internal risk grades quarterly, or as soon as we identify information that affects the credit risk of the loan.

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



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

	September 30, 2015					
<i>(In thousands)</i>	Pass	Special Mention	Sub- standard	Doubtful	Total loans	Total allowance
Commercial:						
Commercial and industrial	\$ 12,037,219	\$ 281,696	\$ 709,086	\$ 7,250	\$ 13,035,251	
Leasing	400,233	3,015	23,533	—	426,781	
Owner occupied	6,684,216	142,204	314,940	—	7,141,360	
Municipal	599,243	48	967	—	600,258	
Total commercial	19,720,911	426,963	1,048,526	7,250	21,203,650	\$ 427,697
Commercial real estate:						
Construction and land development	2,166,381	19,138	27,946	—	2,213,465	
Term	7,862,956	59,689	166,613	—	8,089,258	
Total commercial real estate	10,029,337	78,827	194,559	—	10,302,723	122,269
Consumer:						
Home equity credit line	2,333,240	—	13,821	—	2,347,061	
1-4 family residential	5,214,015	—	54,825	—	5,268,840	
Construction and other consumer real estate	368,363	—	1,652	—	370,015	
Bankcard and other revolving plans	425,979	—	1,870	—	427,849	
Other	192,564	—	421	—	192,985	
Total consumer loans	8,534,161	—	72,589	—	8,606,750	46,474
Total	<u>\$ 38,284,409</u>	<u>\$ 505,790</u>	<u>\$ 1,315,674</u>	<u>\$ 7,250</u>	<u>\$ 40,113,123</u>	<u>\$ 596,440</u>

  

	December 31, 2014					
<i>(In thousands)</i>	Pass	Special Mention	Sub- standard	Doubtful	Total loans	Total allowance
Commercial:						
Commercial and industrial	\$ 12,515,846	\$ 209,215	\$ 426,002	\$ 11,892	\$ 13,162,955	
Leasing	399,032	4,868	5,074	—	408,974	
Owner occupied	6,844,310	168,423	338,815	—	7,351,548	
Municipal	518,513	1,318	1,056	—	520,887	
Total commercial	20,277,701	383,824	770,947	11,892	21,444,364	\$ 412,514
Commercial real estate:						
Construction and land development	1,925,685	8,464	52,259	—	1,986,408	
Term	7,802,571	96,347	223,324	4,358	8,126,600	
Total commercial real estate	9,728,256	104,811	275,583	4,358	10,113,008	145,009
Consumer:						
Home equity credit line	2,304,352	—	16,798	—	2,321,150	
1-4 family residential	5,138,660	—	62,222	—	5,200,882	
Construction and other consumer real estate	367,932	—	2,610	—	370,542	
Bankcard and other revolving plans	399,446	—	1,906	—	401,352	
Other	211,811	—	549	—	212,360	
Total consumer loans	8,422,201	—	84,085	—	8,506,286	47,140
Total	<u>\$ 38,428,158</u>	<u>\$ 488,635</u>	<u>\$ 1,130,615</u>	<u>\$ 16,250</u>	<u>\$ 40,063,658</u>	<u>\$ 604,663</u>

### Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement, including scheduled interest payments. For our non-purchased credit-impaired loans, if a nonaccrual loan has a balance greater than \$1 million, or if a loan is a troubled debt restructuring (“TDR”), including TDRs that subsequently default, or if the loan is no longer reported as a TDR, we individually evaluate the loan for impairment and estimate a specific

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reserve for the loan for all portfolio segments under applicable accounting guidance. Smaller nonaccrual loans are pooled for ALLL estimation purposes. PCI loans are included in impaired loans and are accounted for under separate accounting guidance. See subsequent discussion under Purchased Loans.

When a loan is impaired, we estimate a specific reserve for the loan based on the projected present value of the loan's future cash flows discounted at the loan's effective interest rate, the observable market price of the loan, or the fair value of the loan's underlying collateral. The process of estimating future cash flows also incorporates the same determining factors discussed previously under nonaccrual loans. When we base the impairment amount on the fair value of the loan's underlying collateral, we generally charge off the portion of the balance that is impaired, such that these loans do not have a specific reserve in the ALLL. Payments received on impaired loans that are accruing are recognized in interest income, according to the contractual loan agreement. Payments received on impaired loans that are on nonaccrual are not recognized in interest income, but are applied as a reduction to the principal outstanding. The amount of interest income recognized on a cash basis during the time the loans were impaired within the three and nine months ended September 30, 2015 and 2014 was not significant.

Information on impaired loans individually evaluated is summarized as follows at September 30, 2015 and December 31, 2014, including the average recorded investment and interest income recognized for the three and nine months ended September 30, 2015 and 2014:

<i>(In thousands)</i>	September 30, 2015				
	Unpaid principal balance	Recorded investment		Total recorded investment	Related allowance
		with no allowance	with allowance		
Commercial:					
Commercial and industrial	\$ 245,404	\$ 37,843	\$ 156,665	\$ 194,508	\$ 26,888
Owner occupied	151,243	83,527	48,400	131,927	5,091
Municipal	1,446	967	—	967	—
Total commercial	398,093	122,337	205,065	327,402	31,979
Commercial real estate:					
Construction and land development	47,876	7,486	23,800	31,286	1,068
Term	138,865	90,294	27,856	118,150	1,463
Total commercial real estate	186,741	97,780	51,656	149,436	2,531
Consumer:					
Home equity credit line	28,358	20,672	4,703	25,375	419
1-4 family residential	72,855	29,257	40,465	69,722	10,090
Construction and other consumer real estate	2,966	1,069	1,106	2,175	181
Other	3,843	36	3,162	3,198	294
Total consumer loans	108,022	51,034	49,436	100,470	10,984
Total	<u>\$ 692,856</u>	<u>\$ 271,151</u>	<u>\$ 306,157</u>	<u>\$ 577,308</u>	<u>\$ 45,494</u>

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

<i>(In thousands)</i>	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
	Commercial:			
Commercial and industrial	\$ 191,642	\$ 1,314	\$ 158,825	\$ 5,525
Owner occupied	138,194	2,752	135,212	9,706
Municipal	978	—	1,007	—
Total commercial	<u>330,814</u>	<u>4,066</u>	<u>295,044</u>	<u>15,231</u>
Commercial real estate:				
Construction and land development	31,506	499	31,920	2,691
Term	119,694	3,705	124,446	13,383
Total commercial real estate	<u>151,200</u>	<u>4,204</u>	<u>156,366</u>	<u>16,074</u>
Consumer:				
Home equity credit line	25,095	401	24,329	1,206
1-4 family residential	90,240	398	91,671	1,803
Construction and other consumer real estate	5,540	32	2,342	91
Bankcard and other revolving plans	—	1	1	101
Other	36	177	4,109	692
Total consumer loans	<u>120,911</u>	<u>1,009</u>	<u>122,452</u>	<u>3,893</u>
Total	<u>\$ 602,925</u>	<u>\$ 9,279</u>	<u>\$ 573,862</u>	<u>\$ 35,198</u>

## ZIONS BANCORPORATION AND SUBSIDIARIES

<i>(In thousands)</i>	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial:				
Commercial and industrial	\$ 186,026	\$ 2,335	\$ 180,130	\$ 8,819
Owner occupied	232,484	4,514	235,380	13,774
Municipal	8,798	—	9,343	—
Total commercial	427,308	6,849	424,853	22,593
Commercial real estate:				
Construction and land development	59,735	515	62,404	5,398
Term	225,536	5,670	248,587	26,118
Total commercial real estate	285,271	6,185	310,991	31,516
Consumer:				
Home equity credit line	26,328	369	25,756	1,139
1-4 family residential	81,116	556	81,168	1,583
Construction and other consumer real estate	3,226	43	3,112	115
Bankcard and other revolving plans	—	1	3	2
Other	6,284	384	7,333	1,315
Total consumer loans	116,954	1,353	117,372	4,154
Total	\$ 829,533	\$ 14,387	\$ 853,216	\$ 58,263

**Modified and Restructured Loans**

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

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

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

## ZIONS BANCORPORATION AND SUBSIDIARIES

Selected information on TDRs that includes the recorded investment on an accruing and nonaccruing basis by loan class and modification type is summarized in the following schedules:

		September 30, 2015					
		Recorded investment resulting from the following modification types:					
<i>(In thousands)</i>	Interest rate below market	Maturity or term extension	Principal forgiveness	Payment deferral	Other <sup>1</sup>	Multiple modification types <sup>2</sup>	Total
<b>Accruing</b>							
Commercial:							
Commercial and industrial	\$ 455	\$ 3,906	\$ 14	\$ 108	\$ 223	\$ 35,228	\$ 39,934
Owner occupied	2,034	701	938	—	8,151	17,172	28,996
Total commercial	2,489	4,607	952	108	8,374	52,400	68,930
Commercial real estate:							
Construction and land development	97	—	—	—	—	13,431	13,528
Term	4,758	766	170	975	2,409	20,825	29,903
Total commercial real estate	4,855	766	170	975	2,409	34,256	43,431
Consumer:							
Home equity credit line	192	1,060	11,143	—	164	2,360	14,919
1-4 family residential	2,482	358	7,388	435	3,474	34,901	49,038
Construction and other consumer real estate	177	488	—	—	—	1,153	1,818
Total consumer loans	2,851	1,906	18,531	435	3,638	38,414	65,775
Total accruing	10,195	7,279	19,653	1,518	14,421	125,070	178,136
<b>Nonaccruing</b>							
Commercial:							
Commercial and industrial	90	471	—	2,018	5,351	37,950	45,880
Owner occupied	1,220	1,742	—	5,833	36	9,060	17,891
Municipal	—	967	—	—	—	—	967
Total commercial	1,310	3,180	—	7,851	5,387	47,010	64,738
Commercial real estate:							
Construction and land development	10,512	354	—	—	3,197	968	15,031
Term	2,456	—	833	—	2,899	9,919	16,107
Total commercial real estate	12,968	354	833	—	6,096	10,887	31,138
Consumer:							
Home equity credit line	8	514	512	58	—	48	1,140
1-4 family residential	—	268	2,085	173	1,227	7,325	11,078
Construction and other consumer real estate	—	143	18	60	—	72	293
Total consumer loans	8	925	2,615	291	1,227	7,445	12,511
Total nonaccruing	14,286	4,459	3,448	8,142	12,710	65,342	108,387
Total	\$ 24,481	\$ 11,738	\$ 23,101	\$ 9,660	\$ 27,131	\$ 190,412	\$ 286,523

## ZIONS BANCORPORATION AND SUBSIDIARIES

	December 31, 2014						
	Recorded investment resulting from the following modification types:						
(In thousands)	Interest rate below market	Maturity or term extension	Principal forgiveness	Payment deferral	Other <sup>1</sup>	Multiple modification types <sup>2</sup>	Total
<b>Accruing</b>							
Commercial:							
Commercial and industrial	\$ 2,611	\$ 6,509	\$ 18	\$ 3,203	\$ 3,855	\$ 34,585	\$ 50,781
Owner occupied	19,981	1,124	960	1,251	10,960	17,505	51,781
Total commercial	22,592	7,633	978	4,454	14,815	52,090	102,562
Commercial real estate:							
Construction and land development	—	—	—	—	521	19,854	20,375
Term	7,328	9,027	179	3,153	2,546	39,007	61,240
Total commercial real estate	7,328	9,027	179	3,153	3,067	58,861	81,615
Consumer:							
Home equity credit line	742	70	11,320	—	166	1,281	13,579
1-4 family residential	2,425	552	6,828	446	753	34,719	45,723
Construction and other consumer real estate	290	422	42	90	—	1,227	2,071
Total consumer loans	3,457	1,044	18,190	536	919	37,227	61,373
Total accruing	33,377	17,704	19,347	8,143	18,801	148,178	245,550
<b>Nonaccruing</b>							
Commercial:							
Commercial and industrial	442	576	—	611	5,199	20,410	27,238
Owner occupied	2,714	1,219	—	883	2,852	12,040	19,708
Municipal	—	1,056	—	—	—	—	1,056
Total commercial	3,156	2,851	—	1,494	8,051	32,450	48,002
Commercial real estate:							
Construction and land development	11,080	68	—	93	3,300	6,427	20,968
Term	2,851	—	—	—	277	4,607	7,735
Total commercial real estate	13,931	68	—	93	3,577	11,034	28,703
Consumer:							
Home equity credit line	—	—	420	203	—	399	1,022
1-4 family residential	3,378	1,029	1,951	191	3,527	9,413	19,489
Construction and other consumer real estate	—	463	—	—	—	100	563
Total consumer loans	3,378	1,492	2,371	394	3,527	9,912	21,074
Total nonaccruing	20,465	4,411	2,371	1,981	15,155	53,396	97,779
Total	\$ 53,842	\$ 22,115	\$ 21,718	\$ 10,124	\$ 33,956	\$ 201,574	\$ 343,329

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

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

Unfunded lending commitments on TDRs amounted to approximately \$3.6 million at September 30, 2015 and \$6.1 million at December 31, 2014.

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The total recorded investment of all TDRs in which interest rates were modified below market was \$190.7 million at September 30, 2015 and \$219.3 million at December 31, 2014. These loans are included in the previous schedule in the columns for interest rate below market and multiple modification types.

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

<i>(In thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Commercial:				
Commercial and industrial	\$ (67)	\$ (36)	\$ (189)	\$ (34)
Owner occupied	(46)	(124)	(230)	(400)
Total commercial	(113)	(160)	(419)	(434)
Commercial real estate:				
Construction and land development	(26)	(48)	(88)	(154)
Term	(84)	(150)	(295)	(435)
Total commercial real estate	(110)	(198)	(383)	(589)
Consumer:				
Home equity credit line	—	(1)	(1)	(4)
1-4 family residential	(260)	(276)	(800)	(863)
Construction and other consumer real estate	(7)	(8)	(21)	(25)
Total consumer loans	(267)	(285)	(822)	(892)
Total decrease to interest income <sup>1</sup>	\$ (490)	\$ (643)	\$ (1,624)	\$ (1,915)

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

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

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

<i>(In thousands)</i>	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Accruing	Nonaccruing	Total	Accruing	Nonaccruing	Total
Commercial:						
Commercial and industrial	\$ —	\$ 9	\$ 9	\$ —	\$ 104	\$ 104
Owner occupied	—	—	—	—	943	943
Total commercial	—	9	9	—	1,047	1,047
Commercial real estate:						
Construction and land development	—	—	—	—	—	—
Term	—	—	—	—	833	833
Total commercial real estate	—	—	—	—	833	833
Consumer:						
Home equity credit line	—	—	—	—	—	—
1-4 family residential	—	595	595	—	595	595
Construction and other consumer real estate	—	—	—	—	—	—
Total consumer loans	—	595	595	—	595	595
Total	\$ —	\$ 604	\$ 604	\$ —	\$ 2,475	\$ 2,475

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<i>(In thousands)</i>	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Accruing	Nonaccruing	Total	Accruing	Nonaccruing	Total
Commercial:						
Commercial and industrial	\$ 96	\$ 633	\$ 729	\$ 96	\$ 752	\$ 848
Owner occupied	—	1,025	1,025	—	1,025	1,025
Total commercial	96	1,658	1,754	96	1,777	1,873
Commercial real estate:						
Construction and land development	—	—	—	—	—	—
Term	—	—	—	—	—	—
Total commercial real estate	—	—	—	—	—	—
Consumer:						
Home equity credit line	—	158	158	—	201	201
1-4 family residential	—	353	353	—	353	353
Construction and other consumer real estate	—	—	—	—	39	39
Total consumer loans	—	511	511	—	593	593
Total	\$ 96	\$ 2,169	\$ 2,265	\$ 96	\$ 2,370	\$ 2,466

Note: Total loans modified as TDRs during the 12 months previous to September 30, 2015 and 2014 were \$93.4 million and \$97.3 million, respectively.

As of September 30, 2015, the amount of foreclosed residential real estate property held by the Company was approximately \$1.6 million, and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure was approximately \$9.3 million.

### Concentrations of Credit Risk

Credit risk is the possibility of loss from the failure of a borrower, guarantor, or another obligor to fully perform under the terms of a credit-related contract. Credit risks (whether on- or off-balance sheet) may occur when individual borrowers, groups of borrowers, or counterparties have similar economic characteristics, including industries, geographies, collateral types, sponsors, etc., and are similarly affected by changes in economic or other conditions. Credit risk also includes the loss that would be recognized subsequent to the reporting date if counterparties failed to perform as contracted. See Note 7 for a discussion of counterparty risk associated with the Company's derivative transactions.

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

### Purchased Loans

#### Background and Accounting

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



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with applicable accounting guidance, the acquired loans were recorded at their fair value without a corresponding ALLL. Certain acquired loans with similar characteristics such as risk exposure, type, size, etc., are grouped and accounted for in loan pools.

*Outstanding Balances and Accretable Yield*

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

<i>(In thousands)</i>	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Commercial	\$ 78,180	\$ 104,942
Commercial real estate	81,012	118,217
Consumer	<u>12,204</u>	<u>17,910</u>
Outstanding balance	<u>\$ 171,396</u>	<u>\$ 241,069</u>
Carrying amount	\$ 133,221	\$ 179,299
Less ALLL	<u>1,205</u>	<u>2,800</u>
Carrying amount, net	<u>\$ 132,016</u>	<u>\$ 176,499</u>

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

Certain PCI loans are not accounted for as previously described because the estimation of cash flows to be collected involves a high degree of uncertainty. Under these circumstances, the accounting guidance provides that interest income is recognized on a cash basis similar to the cost recovery methodology for nonaccrual loans. The net carrying amounts in the preceding schedule also include the amounts for these loans. There were no amounts of these loans at September 30, 2015 and \$5.3 million at December 31, 2014.

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

<i>(In thousands)</i>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Balance at beginning of period	\$ 46,702	\$ 60,834	\$ 45,055	\$ 77,528
Accretion	(7,535)	(10,279)	(28,792)	(46,767)
Reclassification from nonaccretable difference	1,005	2,955	18,865	17,406
Disposals and other	<u>1,126</u>	<u>(38)</u>	<u>6,170</u>	<u>5,305</u>
Balance at end of period	<u>\$ 41,298</u>	<u>\$ 53,472</u>	<u>\$ 41,298</u>	<u>\$ 53,472</u>

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

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

*ALLL Determination*

For all acquired loans, the ALLL is only established for credit deterioration subsequent to the date of acquisition and represents our estimate of the inherent losses in excess of the book value of acquired loans. The ALLL for acquired loans is included in the overall ALLL in the balance sheet.

During the three and nine months ended September 30, 2015, we adjusted the ALLL for acquired loans by recording a provision for loan losses of \$0.8 million and \$0.3 million, respectively. No adjustment was made during the three months ended September 30, 2014 and \$(2.5) million was made during the nine months ended September 30, 2014. The provision is net of the ALLL reversals discussed subsequently.

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

#### *Changes in Cash Flow Estimates*

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

For increases in carrying values that resulted from better-than-expected cash flows, we use such increases first to reverse any existing ALLL. During the three and nine months ended September 30, total reversals to the ALLL, including the impact of increases in estimated cash flows, were \$0.6 million and \$3.1 million in 2015 and \$0.8 million and \$4.4 million in 2014, respectively. When there is no current ALLL, we increase the amount of accretable yield on a prospective basis over the remaining life of the loan and recognize this increase in interest income.

For the three and nine months ended September 30, the impact of increased cash flow estimates recognized in the statement of income for acquired loans with no ALLL was approximately \$5.4 million and \$22.1 million in 2015 and \$7.7 million and \$37.9 million in 2014, respectively, of additional interest income.

## **7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

### ***Objectives***

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

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

### ***Accounting***

We record all derivatives on the balance sheet at fair value. Note 10 discusses the process to estimate fair value for derivatives. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative are recognized in earnings together with changes in the fair value of the related hedged item. The net amount, if any, representing hedge ineffectiveness, is reflected in earnings. In previous years, we used fair value hedges to manage interest rate

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exposure to certain long-term debt. These hedges have been terminated and their remaining balances are being amortized into earnings, as discussed subsequently.

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

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

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

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

Amounts in AOCI are reclassified to interest income as interest is earned on variable rate loans and as amounts for terminated hedges are accreted or amortized to earnings. For the 12 months following September 30, 2015, we estimate that an additional \$11.6 million will be reclassified.

***Collateral and Credit Risk***

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

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

We offer interest rate swaps to our customers to assist them in managing their exposure to changing interest rates. Upon issuance, all of these customer swaps are immediately offset through matching derivative contracts, such that the Company minimizes its interest rate risk exposure resulting from such transactions. Most of these customers do not have the capability for centralized clearing. Therefore we manage the credit risk through loan underwriting which includes a credit risk exposure formula for the swap, the same collateral and guarantee protection applicable to the loan and credit approvals, limits, and monitoring procedures. Fee income from customer swaps is included in other service charges, commissions and fees. No significant losses on derivative instruments have occurred as a result of counterparty nonperformance. Nevertheless, the related credit risk is considered and measured when and where appropriate. See Note 6 for further discussion of our underwriting, collateral requirements, and other procedures used to address credit risk.

Our derivative contracts require us to pledge collateral for derivatives that are in a net liability position at a given balance sheet date. Certain of these derivative contracts contain credit-risk-related contingent features that include the requirement to maintain a minimum debt credit rating. We may be required to pledge additional collateral if a credit-risk-related feature were triggered, such as a downgrade of our credit rating. However, in past situations, not all counterparties have demanded that additional collateral be pledged when provided for under their contracts. At September 30, 2015, the fair value of our derivative liabilities was \$86.4 million, for which we were required to pledge cash collateral of approximately \$61.0 million in the normal course of business. If our credit rating were downgraded one notch by either Standard & Poor’s or Moody’s at September 30, 2015, the additional amount of

## ZIONS BANCORPORATION AND SUBSIDIARIES

collateral we could be required to pledge is approximately \$1.9 million. As a result of the Dodd-Frank Act, all newly eligible derivatives entered into are cleared through a central clearinghouse. Derivatives that are centrally cleared do not have credit-risk-related features that require additional collateral if our credit rating were downgraded.

**Derivative Amounts**

Selected information with respect to notional amounts and recorded gross fair values at September 30, 2015 and December 31, 2014, and the related gain (loss) of derivative instruments for the three and nine months ended September 30, 2015 and 2014 is summarized as follows:

<i>(In thousands)</i>	September 30, 2015			December 31, 2014		
	Notional amount	Fair value		Notional amount	Fair value	
		Other assets	Other liabilities		Other assets	Other liabilities
Derivatives designated as hedging instruments						
Asset derivatives						
Cash flow hedges:						
Interest rate swaps	\$ 1,387,500	\$ 17,367	\$ —	\$ 275,000	\$ 1,508	\$ 123
Total derivatives designated as hedging instruments	1,387,500	17,367	—	275,000	1,508	123
Derivatives not designated as hedging instruments						
Interest rate swaps for customers <sup>2</sup>	3,237,694	66,805	69,991	2,770,052	48,287	50,669
Foreign exchange	340,818	18,947	16,372	443,721	16,625	15,272
Total derivatives not designated as hedging instruments	3,578,512	85,752	86,363	3,213,773	64,912	65,941
Total derivatives	\$ 4,966,012	\$ 103,119	\$ 86,363	\$ 3,488,773	\$ 66,420	\$ 66,064

<i>(In thousands)</i>	Three Months Ended September 30, 2015				Nine Months Ended September 30, 2015			
	Amount of derivative gain (loss) recognized/reclassified							
	OCI	Reclassified from AOCI to interest income <sup>3</sup>	Noninterest income (expense)	Offset to interest expense	OCI	Reclassified from AOCI to interest income <sup>3</sup>	Noninterest income (expense)	Offset to interest expense
Derivatives designated as hedging instruments								
Asset derivatives								
Cash flow hedges <sup>1</sup> :								
Interest rate swaps	\$17,343	\$ 2,957			\$21,172	\$ 5,191		
	17,343	2,957			21,172	5,191		
Liability derivatives								
Fair value hedges:								
Terminated swaps on long-term debt				\$ 431				\$ 1,364
Total derivatives designated as hedging instruments	17,343	2,957		431	21,172	5,191		1,364
Derivatives not designated as hedging instruments								
Interest rate swaps for customers <sup>2</sup>			\$ 939				\$ 5,329	
Futures contracts			1				2	
Foreign exchange			2,506				6,938	
Total derivatives not designated as hedging instruments			3,446				12,269	
Total derivatives	\$17,343	\$ 2,957	\$ 3,446	\$ 431	\$21,172	\$ 5,191	\$ 12,269	\$ 1,364

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(In thousands)	Three Months Ended September 30, 2014				Nine Months Ended September 30, 2014			
	Amount of derivative gain (loss) recognized/reclassified							
	OCI	Reclassified from AOCI to interest income <sup>3</sup>	Noninterest income (expense)	Offset to interest expense	OCI	Reclassified from AOCI to interest income <sup>3</sup>	Noninterest income (expense)	Offset to interest expense
Derivatives designated as hedging instruments								
Asset derivatives								
Cash flow hedges <sup>1</sup> :								
Interest rate swaps	\$ (845)	\$ 770			\$ 1,681	\$ 1,698		
	(845)	770			1,681	1,698		
Liability derivatives								
Fair value hedges:								
Terminated swaps on long-term debt				\$ 496				\$ 1,822
Total derivatives designated as hedging instruments	(845)	770		496	1,681	1,698		1,822
Derivatives not designated as hedging instruments								
Interest rate swaps			\$ 1				\$ 355	
Interest rate swaps for customers <sup>2</sup>			1,419				493	
Foreign exchange			2,242				5,951	
Total return swap			—				(7,894)	
Total derivatives not designated as hedging instruments			3,662				(1,095)	
Total derivatives	\$ (845)	\$ 770	\$ 3,662	\$ 496	\$ 1,681	\$ 1,698	\$ (1,095)	\$ 1,822

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

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

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

<sup>3</sup> Amounts for the three and nine months ended September 30, of \$3.0 million and \$5.2 million in 2015, and \$0.8 million and \$1.7 million in 2014, respectively, are the amounts of reclassification to earnings from AOCI presented in Note 8.

At September 30, 2015, the fair value of derivative assets was reduced by a net credit valuation adjustment of \$3.0 million. The adjustment for derivative liabilities was not significant. At September 30, 2014, these same adjustments were \$1.7 million and \$0.3 million, respectively. These adjustments are required to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk.

## 8. DEBT AND SHAREHOLDERS' EQUITY

Long-term debt is summarized as follows:

(In thousands)	September 30, 2015	December 31, 2014
Junior subordinated debentures related to trust preferred securities	\$ 164,950	\$ 168,043
Convertible subordinated notes	70,119	132,838
Subordinated notes	302,102	335,798
Senior notes	406,631	432,385
FHLB advances	—	22,156
Capital lease obligations	950	1,062
Total	\$ 944,752	\$ 1,092,282

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

## ZIONS BANCORPORATION AND SUBSIDIARIES

**Debt Redemptions and Maturities**

During the third quarter of 2015, approximately \$109 million carrying value of 6.0% subordinated and convertible subordinated notes matured. During the first half of 2015, we redeemed approximately \$27 million of long-term senior notes at their initial call dates, and we redeemed \$3.1 million of trust preferred securities and the entire \$22 million of FHLB advances; the FHLB redemption resulted in debt extinguishment cost of \$2.4 million.

On November 16, 2015, approximately \$122 million carrying value at September 30, 2015 of 5.5% subordinated and convertible subordinated notes will mature.

**Preferred Stock**

On October, 19 2015, we announced the commencement of a \$180 million cash tender offer to purchase certain outstanding preferred stock and depository shares. The tender offer will expire on November 16, 2015.

**Basel III Capital Framework**

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

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

**Accumulated Other Comprehensive Income**

Changes in AOCI by component are as follows:

<i>(In thousands)</i>	Net unrealized gains (losses) on investment securities	Net unrealized gains (losses) on derivatives and other	Pension and post- retirement	Total
<b>Nine Months Ended September 30, 2015</b>				
Balance at December 31, 2014	\$ (91,921)	\$ 2,226	\$ (38,346)	\$ (128,041)
Other comprehensive income before reclassifications, net of tax	15,398	13,035	—	28,433
Amounts reclassified from AOCI, net of tax	85,845	(3,212)	—	82,633
Other comprehensive income	101,243	9,823	—	111,066
Balance at September 30, 2015	<u>\$ 9,322</u>	<u>\$ 12,049</u>	<u>\$ (38,346)</u>	<u>\$ (16,975)</u>
Income tax expense included in other comprehensive income	<u>\$ 65,549</u>	<u>\$ 6,311</u>	<u>\$ —</u>	<u>\$ 71,860</u>
<b>Nine Months Ended September 30, 2014</b>				
Balance at December 31, 2013	\$ (168,805)	\$ 1,556	\$ (24,852)	\$ (192,101)
Other comprehensive income before reclassifications, net of tax	100,723	678	—	101,401
Amounts reclassified from AOCI, net of tax	(19,206)	(1,021)	—	(20,227)
Other comprehensive income (loss)	81,517	(343)	—	81,174
Balance at September 30, 2014	<u>\$ (87,288)</u>	<u>\$ 1,213</u>	<u>\$ (24,852)</u>	<u>\$ (110,927)</u>
Income tax expense (benefit) included in other comprehensive income (loss)	<u>\$ 61,714</u>	<u>\$ (214)</u>	<u>\$ —</u>	<u>\$ 61,500</u>

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	Amounts reclassified from AOCI <sup>1</sup>				Statement of income (SI) Balance sheet (BS)	Affected line item
	Three Months Ended September 30,		Nine Months Ended September 30,			
	2015	2014	2015	2014		
<b>Details about AOCI components</b>						
Net realized gains (losses) on investment securities	\$ (53)	\$ (13,901)	\$ (138,728)	\$ 22,039	SI	Fixed income securities gains (losses), net
Income tax expense (benefit)	(20)	(6,015)	(52,883)	1,981		
	<u>(33)</u>	<u>(7,886)</u>	<u>(85,845)</u>	<u>20,058</u>		
Net unrealized losses on investment securities	—	—	—	(27)	SI	Net impairment losses on investment securities
Income tax benefit	—	—	—	(10)		
	<u>—</u>	<u>—</u>	<u>—</u>	<u>(17)</u>		
Accretion of securities with noncredit-related impairment losses not expected to be sold	—	(467)	—	(1,411)	BS	Investment securities, held-to-maturity
Deferred income taxes	—	191	—	576	BS	Other assets
	<u>\$ (33)</u>	<u>\$ (8,162)</u>	<u>\$ (85,845)</u>	<u>\$ 19,206</u>		
Net unrealized gains on derivative instruments	\$ 2,957	\$ 770	\$ 5,191	\$ 1,698	SI	Interest and fees on loans
Income tax expense	1,127	307	1,979	677		
	<u>\$ 1,830</u>	<u>\$ 463</u>	<u>\$ 3,212</u>	<u>\$ 1,021</u>		

<sup>1</sup> Negative reclassification amounts indicate decreases to earnings in the statement of income and increases to balance sheet assets. The opposite applies to positive reclassification amounts.

## 9. INCOME TAXES

The effective income tax rate of 28.8% for the third quarter of 2015 was lower than the 2014 third quarter rate of 35.6%, primarily due to the recognition of tax credits for certain research and development initiatives and for a project related to alternative energy that was placed in service during the third quarter of 2015. On a year-to-date basis, the 2015 tax rate of 32.0% was lower than the 2014 rate of 36.1% due primarily to the tax credit projects and to an increase in the proportion of nontaxable items relative to pretax income.

Net deferred tax assets were approximately \$201 million at September 30, 2015 and \$224 million at December 31, 2014. We evaluate deferred tax assets on a regular basis to determine whether an additional valuation allowance is required. Based on this evaluation, and considering the weight of the positive evidence compared to the negative evidence, we have concluded that an additional valuation allowance is not required as of September 30, 2015.

## 10. FAIR VALUE

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

Level 1 – Quoted prices in active markets for identical assets or liabilities in active markets that the Company has the ability to access;

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

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### ZIONS BANCORPORATION AND SUBSIDIARIES

Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined by pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measure in its entirety. Market activity is presumed to be orderly in the absence of evidence of forced or disorderly sales, although such sales may still be indicative of fair value. Applicable accounting guidance precludes the use of blockage factors or liquidity adjustments due to the quantity of securities held by an entity.

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

#### *Fair Value Policies and Procedures*

We have various policies, processes and controls in place to ensure that fair values are reasonably developed, reviewed and approved for use. These include a Securities Valuation Committee (“SVC”) comprised of executive management appointed by the Board of Directors. The SVC reviews and approves on a quarterly basis the key components of fair value estimation, including critical valuation assumptions for Level 3 modeling. A Model Risk Management Group conducts model validations, including internal models, and sets policies and procedures for revalidation, including the timing of revalidation.

#### *Third Party Service Providers*

We use a third party pricing service to provide pricing for approximately 92% of our AFS Level 2 securities. Fair values for other AFS Level 2 and for Level 3 securities generally use certain inputs corroborated by market data and include standard form discounted cash flow modeling.

For Level 2 securities, the third party pricing service provides documentation on an ongoing basis that presents market corroborative data, including detail pricing information and market reference data. The documentation includes benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data, including information from the vendor trading platform. We review, test and validate this information as appropriate. Absent observable trade data, we do not adjust prices from our third party sources.

The following describes the hierarchy designations, valuation methodologies, and key inputs to measure fair value on a recurring basis for designated financial instruments:

#### *Available-for-Sale*

##### *U.S. Treasury, Agencies and Corporations*

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

##### *Municipal Securities*

Municipal securities are measured under Level 2 generally using the third party pricing service. Valuation inputs include Baa municipal curves, as well as FHLB and London Interbank Offered Rate (“LIBOR”) swap curves.

##### *Money Market Mutual Funds and Other*

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



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### ZIONS BANCORPORATION AND SUBSIDIARIES

#### *Trading Account*

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

#### *Bank-Owned Life Insurance*

Bank-owned life insurance (“BOLI”) is measured under Level 2 according to cash surrender values (“CSVs”) of the insurance policies that are provided by a third party service. Nearly all policies are general account policies with CSVs based on the Company’s claims on the assets of the insurance companies. The insurance companies’ investments include predominantly fixed income securities consisting of investment-grade corporate bonds and various types of mortgage instruments. Management regularly reviews its BOLI investment performance, including concentrations among insurance providers.

#### *Private Equity Investments*

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

#### *Agriculture Loan Servicing*

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

#### *Interest-Only Strips*

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

#### *Deferred Compensation Plan Assets and Obligations*

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

#### *Derivatives*

Derivatives are measured according to their classification as either exchange-traded or over-the-counter (“OTC”). Exchange-traded derivatives consist of foreign currency exchange contracts measured under Level 1 because they are traded in active markets. OTC derivatives, including those for customers, consist of interest rate swaps and options. These derivatives are measured under Level 2 using third party services. Observable market inputs include yield curves (the LIBOR swap curve and relevant overnight index swap curves), foreign exchange rates, commodity prices, option volatilities, counterparty credit risk, and other related data. Credit valuation adjustments are required to reflect nonperformance risk for both the Company and the respective counterparty. These adjustments are determined generally by applying a credit spread to the total expected exposure of the derivative.

#### *Securities Sold, Not Yet Purchased*

Securities sold, not yet purchased, included in “Federal funds and other short-term borrowings” on the balance sheet, are measured under Level 1 using quoted market prices. If not available, quoted prices under Level 2 for similar securities are used.

## ZIONS BANCORPORATION AND SUBSIDIARIES

**Quantitative Disclosure of Fair Value Measurements**

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

<i>(In thousands)</i>	September 30, 2015			
	Level 1	Level 2	Level 3	Total
<b>ASSETS</b>				
Investment securities:				
Available-for-sale:				
U.S. Treasury, agencies and corporations	\$ —	\$ 5,741,982	\$ —	\$ 5,741,982
Municipal securities		213,398		213,398
Other debt securities		22,767		22,767
Money market mutual funds and other	18,509	3,355		21,864
	18,509	5,981,502	—	6,000,011
Trading account		73,521		73,521
Other noninterest-bearing investments:				
Bank-owned life insurance		482,199		482,199
Private equity investments			120,195	120,195
Other assets:				
Agriculture loan servicing and interest-only strips			13,161	13,161
Deferred compensation plan assets	83,703			83,703
Derivatives:				
Interest rate related and other		18,270		18,270
Interest rate swaps for customers		66,805		66,805
Foreign currency exchange contracts	18,947			18,947
	18,947	85,075	—	104,022
	\$ 121,159	\$ 6,622,297	\$ 133,356	\$ 6,876,812
<b>LIABILITIES</b>				
Securities sold, not yet purchased	\$ 29,566	\$ —	\$ —	\$ 29,566
Other liabilities:				
Deferred compensation plan obligations	83,703			83,703
Derivatives:				
Interest rate related and other		245		245
Interest rate swaps for customers		69,991		69,991
Foreign currency exchange contracts	16,372			16,372
	16,372	70,236	—	86,608
	\$ 129,641	\$ 70,236	\$ —	\$ 199,877

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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*Reconciliation of Level 3 Fair Value Measurements*

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

	Level 3 Instruments					
	Three Months Ended September 30, 2015					
	Municipal securities	Trust preferred – banks and insurance	Other	Private equity investments	Ag loan svcg and int-only strips	Derivatives and other liabilities
<i>(In thousands)</i>						
Balance at June 30, 2015	\$ —	\$ —	\$ —	\$ 110,115	\$ 13,502	\$ —
Net gains (losses) included in:						
Statement of income:						
Dividends and other investment income (loss)				(620)		
Equity securities gains, net				3,587		
Other noninterest loss, net					(375)	
Purchases				8,184	234	
Sales				(126)		
Redemptions and paydowns				(945)	(200)	
Balance at September 30, 2015	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 120,195</u>	<u>\$ 13,161</u>	<u>\$ —</u>

	Level 3 Instruments					
	Nine Months Ended September 30, 2015					
	Municipal securities	Trust preferred – banks and insurance	Other	Private equity investments	Ag loan svcg and int-only strips	Derivatives and other liabilities
<i>(In thousands)</i>						
Balance at December 31, 2014	\$ 4,164	\$ 393,007	\$ 4,761	\$ 97,649	\$ 12,227	\$ (13)
Net gains (losses) included in:						
Statement of income:						
Accretion of purchase discount on securities available-for-sale	3	471				
Dividends and other investment loss				(1,179)		
Equity securities gains, net				7,554		
Fixed income securities losses, net	(344)	(136,691)	(606)			
Other noninterest income, net					1,112	
Other noninterest expense						13
Other comprehensive income (loss)	687	141,547	(74)			
Fair value of HTM securities reclassified as AFS		57,308				
Purchases				20,498	615	
Sales	(2,651)	(440,055)	(4,081)	(2,634)		
Redemptions and paydowns	(1,859)	(15,587)		(1,693)	(793)	
Balance at September 30, 2015	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 120,195</u>	<u>\$ 13,161</u>	<u>\$ —</u>

## ZIONS BANCORPORATION AND SUBSIDIARIES

	Level 3 Instruments							
	Three Months Ended September 30, 2014							
	Municipal securities	Trust preferred – banks and insurance	Trust preferred – REIT <sup>1</sup>	Auction rate	Other asset-backed	Private equity investments	Ag loan svcg and int-only strips	Derivatives and other liabilities
<i>(In thousands)</i>								
Balance at June 30, 2014	\$ 10,038	\$ 685,805	\$ —	\$ 6,578	\$ 28	\$ 82,256	\$ 11,461	\$ (132)
Net gains (losses) included in:								
Statement of income:								
Accretion of purchase discount on securities available-for-sale	9	480		1				
Dividends and other investment income						1,451		
Equity securities losses, net						(3,684)		
Fixed income securities gains (losses), net	2	(13,956)		37				
Other noninterest income							139	
Other noninterest expense								65
Other comprehensive income	4	45,521		48				
Purchases						4,438	531	
Sales		(155,869)		(950)	(1)	(476)		
Redemptions and paydowns	(125)	(36,511)				(100)	(213)	
Balance at September 30, 2014	<u>\$ 9,928</u>	<u>\$ 525,470</u>	<u>\$ —</u>	<u>\$ 5,714</u>	<u>\$ 27</u>	<u>\$ 83,885</u>	<u>\$ 11,918</u>	<u>\$ (67)</u>

	Level 3 Instruments							
	Nine Months Ended September 30, 2014							
	Municipal securities	Trust preferred – banks and insurance	Trust preferred – REIT <sup>1</sup>	Auction rate	Other asset-backed	Private equity investments	Ag loan svcg and int-only strips	Derivatives and other liabilities
<i>(In thousands)</i>								
Balance at December 31, 2013	\$ 10,662	\$ 1,238,820	\$ 22,996	\$ 6,599	\$ 25,800	\$ 82,410	\$ 8,852	\$ (4,303)
Net gains (losses) included in:								
Statement of income:								
Accretion of purchase discount on securities available-for-sale	27	1,833		3				
Dividends and other investment income (loss)						(1,296)		
Fair value and nonhedge derivative loss								(7,894)
Equity securities gains, net						(3,100)		
Fixed income securities gains, net	18	9,009	1,399	37	10,917			
Other noninterest income							665	
Other noninterest expense								174
Other comprehensive income (loss)	(178)	146,861		25	(15)			
Purchases						12,898	2,987	
Sales		(702,257)	(24,395)	(950)	(36,670)	(1,315)		
Redemptions and paydowns	(601)	(99,603)			(5)	(5,712)	(586)	11,956
Transfers to Level 2		(69,193)						
Balance at September 30, 2014	<u>\$ 9,928</u>	<u>\$ 525,470</u>	<u>\$ —</u>	<u>\$ 5,714</u>	<u>\$ 27</u>	<u>\$ 83,885</u>	<u>\$ 11,918</u>	<u>\$ (67)</u>

<sup>1</sup> Real Estate Investment Trust

Except for the transfers included in the previous schedule, no transfers of assets or liabilities occurred among Levels 1, 2 or 3 for the three and nine months ended September 30, 2015 and 2014. Transfers are considered to have occurred as of the end of the reporting period.

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ZIONS BANCORPORATION AND SUBSIDIARIES

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

<i>(In thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Dividends and other investment income	\$ (6)	\$ —	\$ (2)	\$ 34
Fixed income securities gains (losses), net	—	(13,917)	(137,641)	21,380
Equity securities losses, net	(10,637)	—	(11,311)	—

*Nonrecurring Fair Value Measurements*

Included in the balance sheet amounts are the following amounts of assets that had fair value changes during the year-to-date period measured on a nonrecurring basis.

<i>(In thousands)</i>	Fair value at September 30, 2015				Fair value at December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>ASSETS</b>								
Private equity investments, carried at cost	\$ —	\$ —	\$ 2,974	\$ 2,974	\$ —	\$ —	\$ 23,454	\$ 23,454
Impaired loans	—	14,419	—	14,419	—	16,574	—	16,574
Other real estate owned	—	2,221	—	2,221	—	8,034	—	8,034
	<u>\$ —</u>	<u>\$ 16,640</u>	<u>\$ 2,974</u>	<u>\$ 19,614</u>	<u>\$ —</u>	<u>\$ 24,608</u>	<u>\$ 23,454</u>	<u>\$ 48,062</u>

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

<i>(In thousands)</i>	Gains (losses) from fair value changes			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>ASSETS</b>				
HTM securities adjusted for OTTI	\$ —	\$ —	\$ —	\$ (27)
Private equity investments, carried at cost	(625)	(339)	(2,903)	(471)
Impaired loans	(7,666)	(807)	(12,682)	(12,126)
Other real estate owned	(565)	(3,088)	(1,883)	(6,259)
	<u>\$ (8,856)</u>	<u>\$ (4,234)</u>	<u>\$ (17,468)</u>	<u>\$ (18,883)</u>

During the three and nine months ended September 30, we recognized net gains of \$0.8 million and \$2.7 million in 2015 and \$1.9 million and \$4.4 million in 2014 from the sale of other real estate owned (“OREO”) properties that had a carrying value at the time of sale of approximately \$13.1 million and \$30.7 million during the nine months ended September 30, 2015 and 2014, respectively. Previous to their sale in these periods, we recognized impairment on these properties that was not significant for the three months ended September 30, 2015 and 2014, and was \$0.4 million and \$0.5 million for the nine months ended September 30, 2015 and 2014, respectively.

Private equity investments carried at cost were measured at fair value for impairment purposes according to the methodology previously discussed for these investments. Amounts of private equity investments carried at cost were \$28.7 million at September 30, 2015 and \$39.1 million at December 31, 2014. Amounts of other noninterest-bearing investments carried at cost were \$220.2 million at September 30, 2015 and \$250.7 million at December 31, 2014, which were comprised of Federal Reserve, Federal Home Loan Bank, and Farmer Mac stock.

Impaired (or nonperforming) loans that are collateral-dependent were measured at fair value based on the fair value of the collateral. OREO was measured initially at fair value based on property appraisals at the time of transfer and subsequently at the lower of cost or fair value.

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

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

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

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

<i>(In thousands)</i>	September 30, 2015			December 31, 2014		
	Carrying value	Estimated fair value	Level	Carrying value	Estimated fair value	Level
Financial assets:						
HTM investment securities	\$ 544,168	\$ 553,088	3	\$ 647,252	\$ 677,196	3
Loans and leases (including loans held for sale), net of allowance	39,655,805	39,414,672	3	39,591,499	39,426,498	3
Financial liabilities:						
Time deposits	2,216,206	2,223,094	2	2,406,924	2,408,550	2
Foreign deposits	441,560	441,548	2	328,391	328,447	2
Long-term debt (less fair value hedges)	944,613	975,642	2	1,090,778	1,159,287	2

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

HTM investment securities primarily consist of municipal securities. They were measured at fair value according to the methodologies previously discussed for these investment types.

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

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

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

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

## 11. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

### *Commitments and Guarantees*

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

<i>(In thousands)</i>	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Net unfunded commitments to extend credit <sup>1</sup>	\$ 16,969,127	\$ 16,658,757
Standby letters of credit:		
Financial	701,945	745,895
Performance	204,949	183,482
Commercial letters of credit	77,874	32,144
Total unfunded lending commitments	<u>\$ 17,953,895</u>	<u>\$ 17,620,278</u>

<sup>1</sup> *Net of participations*

The Company's 2014 Annual Report on Form 10-K contains further information about these commitments and guarantees including their terms and collateral requirements. At September 30, 2015, the Company had recorded approximately \$15.2 million as a liability for the guarantees associated with the standby letters of credit, which consisted of \$12.0 million attributable to the RULC and \$3.2 million of deferred commitment fees.

At September 30, 2015, the Parent has guaranteed \$15 million of debt of affiliated trusts issuing trust preferred securities.

At September 30, 2015, we had unfunded commitments for private equity investments of approximately \$48 million. These obligations have no stated maturity. Certain PEIs related to these commitments are prohibited by the Volcker Rule. See related discussions about these investments in Notes 5 and 10.

### *Legal Matters*

We are subject to litigation in court and arbitral proceedings, as well as proceedings, investigations, examinations and other actions brought or considered by governmental and self-regulatory agencies. Litigation may relate to lending, deposit and other customer relationships, vendor and contractual issues, employee matters, intellectual property matters, personal injuries and torts, regulatory and legal compliance, and other matters. While most matters relate to individual claims, we are also subject to putative class action claims and similar broader claims. Proceedings, investigations, examinations and other actions brought or considered by governmental and self-regulatory agencies may relate to our banking, investment advisory, trust, securities, and other products and services; our customers' involvement in money laundering, fraud, securities violations and other illicit activities or our policies and practices relating to such customer activities; and our compliance with the broad range of banking, securities and other laws and regulations applicable to us. At any given time, we may be in the process of responding to subpoenas, requests for documents, data and testimony relating to such matters and engaging in discussions to resolve the matters.



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As of September 30, 2015, we were subject to the following material litigation and governmental inquiries:

- a class action case, Reyes v. Zions First National Bank, et. al., which was brought in the United States District Court for the Eastern District of Pennsylvania in early 2010. This case relates to our banking relationships with customers that allegedly engaged in wrongful telemarketing practices. The plaintiff is seeking a trebled monetary award under the federal RICO Act. In the third quarter of 2013, the District Court denied the plaintiff's motion for class certification in the Reyes case. The plaintiff appealed the District Court decision to the Third Circuit Court of Appeals. In the third quarter of 2015, the Third Circuit vacated the District Court's decision denying class certification and remanded the matter to the District Court with instructions to reconsider the class certification determination in light of particular standards articulated by the Third Circuit in its opinion. The District Court judge has directed the parties to participate in a settlement conference with a federal magistrate judge in the fourth quarter of 2015.
- a governmental inquiry into possible money laundering activities of a customer of one of our subsidiary banks and the anti-money laundering practices of that bank (conducted by the United States Attorney's Office for the Southern District of New York). Our first contact with the United States Attorney's Office relating to this matter occurred in early 2012. We are unclear about the status of this inquiry.
- a governmental inquiry into the practices of our subsidiary, Zions Bank; our former subsidiary, NetDeposit, LLC; and possibly other of our affiliates relating primarily to payment processing for allegedly fraudulent telemarketers and other customer types (conducted by the Department of Justice). This inquiry has been directed towards the banking industry generally, including numerous banks unrelated to us, and has led to a number of enforcement actions. Our first contact with the Department of Justice relating to this matter occurred in early 2013. We are unclear about the status of the inquiry as it relates to us.

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

In our review, we also assess whether we can determine the range of reasonably possible losses for significant matters in which we are unable to determine that the likelihood of a loss is remote. Because of the difficulty of predicting the outcome of legal matters, discussed subsequently, we are able to meaningfully estimate such a range only for a limited number of matters. Based on information available as of September 30, 2015, we estimated the aggregate range of reasonably possible losses for those matters to be from \$0 million to roughly \$50 million in excess of amounts accrued. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from this estimate. Those matters for which an estimate is not possible are not included within this estimated range and, therefore, this estimated range does not represent our maximum loss exposure.

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

Any estimate or determination relating to the future resolution of litigation, arbitration, governmental or self-regulatory examinations, investigations or actions or similar matters is inherently uncertain and involves significant judgment. This is particularly true in the early stages of a legal matter, when legal issues and facts have not been well articulated, reviewed, analyzed, and vetted through discovery, preparation for trial or hearings, substantive and productive mediation or settlement discussions, or other actions. It is also particularly true with respect to class

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action and similar claims involving multiple defendants, matters with complex procedural requirements or substantive issues or novel legal theories, and examinations, investigations and other actions conducted or brought by governmental and self-regulatory agencies, in which the normal adjudicative process is not applicable. Accordingly, we usually are unable to determine whether a favorable or unfavorable outcome is remote, reasonably likely, or probable, or to estimate the amount or range of a probable or reasonably likely loss, until relatively late in the course of a legal matter, sometimes not until a number of years have elapsed. Accordingly, our judgments and estimates relating to claims will change from time to time in light of developments and actual outcomes will differ from our estimates. These differences may be material.

## 12. RETIREMENT PLANS

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

<i>(In thousands)</i>	Pension benefits		Supplemental retirement benefits		Postretirement benefits		Pension benefits		Supplemental retirement benefits		Postretirement benefits	
	Three Months Ended September 30,						Nine Months Ended September 30,					
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Service cost	\$ —	\$ —	\$ —	\$ —	\$ 8	\$ 8	\$ —	\$ —	\$ —	\$ —	\$ 25	\$ 23
Interest cost	1,755	1,869	101	113	10	12	5,320	5,608	302	340	30	35
Expected return on plan assets	(3,090)	(3,326)					(9,270)	(9,979)				
Amortization of prior service cost				13						38		
Amortization of net actuarial (gain) loss	1,297	735	31	5	(13)	(18)	4,445	2,206	92	14	(40)	(53)
Net periodic benefit cost (credit)	\$ (38)	\$ (722)	\$ 132	\$ 131	\$ 5	\$ 2	\$ 495	\$ (2,165)	\$ 394	\$ 392	\$ 15	\$ 5

As disclosed in the Company's 2014 Annual Report on Form 10-K, the Company has frozen its participation and benefit accruals for the pension plan and its contributions for individual benefit payments in the postretirement benefit plan.

## 13. OPERATING SEGMENT INFORMATION

We manage our operations and prepare management reports and other information with a primary focus on geographical area. As of September 30, 2015, we operate seven community/regional banks in distinct geographical areas. Performance assessment and resource allocation are based upon this geographical structure. Zions Bank operates 99 branches in Utah, 24 branches in Idaho, and one branch in Wyoming. Amegy operates 77 branches in Texas. CB&T operates 94 branches in California. NBAZ operates 66 branches in Arizona. NSB operates 49 branches in Nevada. Vectra operates 36 branches in Colorado and one branch in New Mexico. TCBW operates one branch in Washington and one branch in Oregon. Effective April 1, 2015, TCBO was merged into TCBW. Note 1 discusses the approval to merge the Company's seven subsidiary banks into Zions Bank following the close of business on December 31, 2015. This consolidation will affect the presentation of segment reporting, although certain geographical information will continue.

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

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

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**ZIONS BANCORPORATION AND SUBSIDIARIES**

The following schedule presents selected operating segment information for the three months ended September 30, 2015 and 2014:

<i>(In millions)</i>	<b>Zions Bank</b>		<b>Amegy</b>		<b>CB&amp;T</b>		<b>NBAZ</b>		<b>NSB</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>CONDENSED INCOME STATEMENT</b>										
Net interest income	\$ 145.9	\$ 146.7	\$ 99.9	\$ 95.8	\$ 95.0	\$ 98.9	\$ 40.4	\$ 40.3	\$ 27.6	\$ 28.4
Provision for loan losses	(5.7)	(27.7)	31.8	(3.5)	1.1	(10.1)	(2.4)	(4.5)	(3.7)	(4.9)
Net interest income after provision for loan losses	151.6	174.4	68.1	99.3	93.9	109.0	42.8	44.8	31.3	33.3
Noninterest income	50.4	44.8	33.4	39.4	18.6	17.5	9.9	9.6	9.4	9.6
Noninterest expense	128.8	123.4	90.2	79.1	70.6	77.1	35.8	33.2	32.3	31.8
Income before income taxes	73.2	95.8	11.3	59.6	41.9	49.4	16.9	21.2	8.4	11.1
Income taxes (benefit)	26.4	35.4	3.5	20.4	16.4	19.1	2.6	7.9	2.8	3.7
Net income (loss)	46.8	60.4	7.8	39.2	25.5	30.3	14.3	13.3	5.6	7.4
Net income (loss) applicable to noncontrolling interests	0.6	—	—	—	—	—	—	—	—	—
Net income (loss) applicable to controlling interest	\$ 46.2	\$ 60.4	\$ 7.8	\$ 39.2	\$ 25.5	\$ 30.3	\$ 14.3	\$ 13.3	\$ 5.6	\$ 7.4
<b>AVERAGE BALANCE SHEET DATA</b>										
Total assets	\$ 18,437	\$ 18,083	\$ 13,901	\$ 13,861	\$ 11,846	\$ 11,252	\$ 5,018	\$ 4,710	\$ 4,354	\$ 4,074
Cash and due from banks	241	322	101	172	88	134	43	70	70	94
Money market investments	2,064	3,083	2,230	2,555	1,944	1,577	441	401	961	741
Total securities	3,211	1,814	319	266	538	258	535	380	864	799
Total loans	12,200	12,312	10,078	9,721	8,532	8,520	3,799	3,660	2,321	2,318
Total deposits	15,944	15,827	11,411	11,382	10,181	9,592	4,360	4,081	3,951	3,670
Shareholder's equity:										
Preferred equity	280	280	226	226	162	162	85	85	50	50
Common equity	1,689	1,578	1,967	1,903	1,415	1,386	500	465	326	330
Noncontrolling interests	17	—	—	—	—	—	—	—	—	—
Total shareholder's equity	1,986	1,858	2,193	2,129	1,577	1,548	585	550	376	380
							<b>Consolidated Company</b>			
	<b>Vectra</b>	<b>TCBW</b>	<b>Other</b>				<b>2015</b>	<b>2014</b>		
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>		
<b>CONDENSED INCOME STATEMENT</b>										
Net interest income	\$ 25.5	\$ 25.4	\$ 7.5	\$ 8.3	\$ (16.4)	\$ (27.1)	\$ 425.4	\$ 416.7		
Provision for loan losses	(1.6)	(3.2)	(1.2)	(0.7)	—	(0.1)	18.3	(54.7)		
Net interest income after provision for loan losses	27.1	28.6	8.7	9.0	(16.4)	(27.0)	407.1	471.4		
Noninterest income	5.8	6.0	1.1	1.1	2.2	(12.0)	130.8	116.0		
Noninterest expense	24.7	24.2	5.3	5.7	8.4	64.0	396.1	438.5		
Income (loss) before income taxes	8.2	10.4	4.5	4.4	(22.6)	(103.0)	141.8	148.9		
Income taxes (benefit)	2.7	3.6	1.5	1.5	(15.1)	(38.5)	40.8	53.1		
Net income (loss)	5.5	6.8	3.0	2.9	(7.5)	(64.5)	101.0	95.8		
Net income (loss) applicable to noncontrolling interests	—	—	—	—	(0.6)	—	—	—		
Net income (loss) applicable to controlling interest	\$ 5.5	\$ 6.8	\$ 3.0	\$ 2.9	\$ (6.9)	\$ (64.5)	\$ 101.0	\$ 95.8		
<b>AVERAGE BALANCE SHEET DATA</b>										
Total assets	\$ 3,246	\$ 2,751	\$ 1,058	\$ 977	\$ 546	\$ 420	\$ 58,406	\$ 56,128		
Cash and due from banks	26	41	29	34	(14)	(9)	584	858		
Money market investments	514	174	227	140	395	(178)	8,776	8,493		
Total securities	247	152	86	78	56	300	5,856	4,047		
Total loans	2,397	2,319	702	712	(4)	5	40,025	39,567		
Total deposits	2,834	2,339	906	827	(668)	(1,427)	48,919	46,291		
Shareholder's equity:										
Preferred equity	25	26	3	3	173	172	1,004	1,004		
Common equity	324	307	111	107	324	145	6,656	6,221		
Noncontrolling interests	—	—	—	—	(17)	—	—	—		
Total shareholder's equity	349	333	114	110	480	317	7,660	7,225		

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The following schedule presents selected operating segment information for the nine months ended September 30, 2015 and 2014:

<i>(In millions)</i>	<b>Zions Bank</b>		<b>Amegy</b>		<b>CB&amp;T</b>		<b>NBAZ</b>		<b>NSB</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>CONDENSED INCOME STATEMENT</b>										
Net interest income	\$ 431.2	\$ 434.8	\$ 291.6	\$ 285.9	\$ 289.4	\$ 311.8	\$ 119.7	\$ 120.9	\$ 83.9	\$ 84.6
Provision for loan losses	(18.7)	(51.8)	56.9	5.9	(6.5)	(25.1)	1.0	(15.5)	(15.4)	(13.2)
Net interest income after provision for loan losses	449.9	486.6	234.7	280.0	295.9	336.9	118.7	136.4	99.3	97.8
Noninterest income <sup>1</sup>	90.6	139.0	101.2	107.7	56.5	37.1	29.2	26.2	26.8	23.4
Noninterest expense	385.5	366.0	280.9	258.6	224.4	244.8	109.5	109.4	98.0	97.9
Income before income taxes	155.0	259.6	55.0	129.1	128.0	129.2	38.4	53.2	28.1	23.3
Income taxes (benefit)	54.4	95.4	17.2	43.6	50.0	50.2	10.0	19.7	9.4	7.7
Net income (loss)	100.6	164.2	37.8	85.5	78.0	79.0	28.4	33.5	18.7	15.6
Net income (loss) applicable to noncontrolling interests	2.0	—	—	—	—	—	—	—	—	—
Net income (loss) applicable to controlling interest	<u>\$ 98.6</u>	<u>\$ 164.2</u>	<u>\$ 37.8</u>	<u>\$ 85.5</u>	<u>\$ 78.0</u>	<u>\$ 79.0</u>	<u>\$ 28.4</u>	<u>\$ 33.5</u>	<u>\$ 18.7</u>	<u>\$ 15.6</u>
<b>AVERAGE BALANCE SHEET DATA</b>										
Total assets	\$18,628	\$17,983	\$13,846	\$13,650	\$11,578	\$11,063	\$ 4,929	\$ 4,673	\$4,277	\$4,046
Cash and due from banks	263	332	127	235	88	152	45	72	72	88
Money market investments	2,664	3,101	2,086	2,498	1,794	1,321	413	368	861	735
Total securities	2,827	1,720	295	256	434	274	466	372	854	789
Total loans	12,184	12,292	10,170	9,550	8,502	8,571	3,803	3,668	2,354	2,314
Total deposits	16,186	15,709	11,362	11,217	9,917	9,421	4,277	4,016	3,870	3,648
Shareholder's equity:										
Preferred equity	280	280	226	202	162	162	85	101	50	50
Common equity	1,654	1,556	1,953	1,875	1,405	1,368	492	447	330	324
Noncontrolling interests	13	—	—	—	—	—	—	—	—	—
Total shareholder's equity	1,947	1,836	2,179	2,077	1,567	1,530	577	548	380	374
	<b>Vectra</b>		<b>TCBW</b>		<b>Other</b>		<b>Consolidated Company</b>			
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>CONDENSED INCOME STATEMENT</b>										
Net interest income	\$ 77.6	\$ 76.1	\$ 22.6	\$ 24.0	\$ (49.6)	\$ (88.6)	\$1,266.4	\$1,249.5		
Provision for loan losses	1.9	(9.5)	(1.8)	(0.4)	(0.1)	(0.1)	17.3	(109.7)		
Net interest income after provision for loan losses	75.7	85.6	24.4	24.4	(49.5)	(88.5)	1,249.1	1,359.2		
Noninterest income <sup>1</sup>	15.6	15.7	3.3	1.4	(70.1)	28.7	253.1	379.2		
Noninterest expense	73.0	73.2	11.6	17.1	14.8	75.6	1,197.7	1,242.6		
Income (loss) before income taxes	18.3	28.1	16.1	8.7	(134.4)	(135.4)	304.5	495.8		
Income taxes (benefit)	5.8	9.7	5.5	3.0	(54.8)	(50.1)	97.5	179.2		
Net income (loss)	12.5	18.4	10.6	5.7	(79.6)	(85.3)	207.0	316.6		
Net income (loss) applicable to noncontrolling interests	—	—	—	—	(2.0)	—	—	—		
Net income (loss) applicable to controlling interest	<u>\$ 12.5</u>	<u>\$ 18.4</u>	<u>\$ 10.6</u>	<u>\$ 5.7</u>	<u>\$ (77.6)</u>	<u>\$ (85.3)</u>	<u>\$ 207.0</u>	<u>\$ 316.6</u>		
<b>AVERAGE BALANCE SHEET DATA</b>										
Total assets	\$ 3,154	\$ 2,639	\$ 1,007	\$ 957	\$ 154	\$ 524	\$57,573	\$55,535		
Cash and due from banks	28	45	33	28	(17)	(14)	639	938		
Money market investments	459	70	166	122	(39)	(168)	8,404	8,047		
Total securities	221	158	82	84	120	409	5,299	4,062		
Total loans	2,385	2,305	712	710	1	4	40,111	39,414		
Total deposits	2,745	2,231	863	809	(1,039)	(1,205)	48,181	45,846		
Shareholder's equity:										
Preferred equity	25	46	3	3	173	160	1,004	1,004		
Common equity	320	279	107	105	258	(98)	6,519	5,856		
Noncontrolling interests	—	—	—	—	(13)	—	—	—		
Total shareholder's equity	345	325	110	108	418	62	7,523	6,860		

<sup>1</sup> Includes loss on sale of CDOs in the second quarter of 2015 of (in millions) \$62.5 (Zions Bank), \$0.6 (NSB), \$0.6 (Vectra) and \$73.1 (Other).

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

### FORWARD-LOOKING INFORMATION

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

- statements with respect to the beliefs, plans, objectives, goals, guidelines, expectations, anticipations, and future financial condition, results of operations and performance of Zions Bancorporation ("the Parent") and its subsidiaries (collectively "the Company," "Zions," "we," "our," "us"); and
- statements preceded by, followed by, or that include the words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "target," "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, including its restructuring and efficiency initiatives and its tender offer for certain of its preferred stock;
- changes in local, national and international political and economic conditions, including without limitation the political and economic effects of the recent economic crisis, delay of recovery from that crisis, economic and fiscal imbalances in the United States and other countries, potential or actual downgrades in ratings of sovereign debt issued by the United States and other countries, and other major developments, including wars, military actions, and terrorist attacks;
- changes in financial and commodity market prices and conditions, either internationally, nationally or locally in areas in which the Company conducts its operations, including without limitation reduced rates of business formation and growth, commercial and residential real estate development and real estate prices, and energy-related commodity prices, including the actual amount and duration of declines in the price of oil and gas;
- changes in markets for debt, equity, and securities, including availability, market liquidity levels, and pricing;
- changes in interest rates, the quality and composition of the loan and securities portfolios, demand for loan products, deposit flows and competition;
- acquisitions and integration of acquired businesses;
- increases in the levels of losses, customer bankruptcies, bank failures, claims, and assessments;
- changes in fiscal, monetary, regulatory, trade and tax policies and laws, and regulatory assessments and fees, including policies of the U.S. Department of Treasury, the OCC, the Board of Governors of the Federal Reserve Board System, the FDIC, the SEC, and the CFPB;
- the impact of executive compensation rules under the Dodd-Frank Act and banking regulations which may impact the ability of the Company and other American financial institutions to retain and recruit executives and other personnel necessary for their businesses and competitiveness;
- the impact of the Dodd-Frank Act and Basel III, and rules and regulations thereunder, on our required regulatory capital and liquidity levels, governmental assessments on us (including, but not limited to, the Federal Reserve reviews of our annual capital plan), the scope of business activities in which we may engage, the manner in which we engage in such activities, the fees we may charge for certain products and services, and other matters affected by the Dodd-Frank Act and these international standards;
- continuing consolidation in the financial services industry;
- new legal claims against the Company, including litigation, arbitration and proceedings brought by governmental or self-regulatory agencies, or changes in existing legal matters;
- success in gaining regulatory approvals, when required;

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### ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

### GLOSSARY OF ACRONYMS

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

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### ZIONS BANCORPORATION AND SUBSIDIARIES

OTTI	Other-Than-Temporary Impairment	SVC	Securitization Valuation Committee
Parent	Zions Bancorporation	T1C	Tier 1 Common (Basel I)
PCI	Purchase Credit-Impaired	TCBO	The Commerce Bank of Oregon
PD	Probability of Default	TCBW	The Commerce Bank of Washington
PEIs	Private Equity Investments	TDR	Troubled Debt Restructuring
REIT	Real Estate Investment Trust	Vectra	Vectra Bank Colorado
ROC	Risk Oversight Committee	VIE	Variable Interest Entity
RULC	Reserve for Unfunded Lending Commitments	VR	Volcker Rule
SBA	Small Business Administration	Zions Bank	Zions First National Bank
SBIC	Small Business Investment Company	ZMFU	Zions Municipal Funding
SEC	Securities and Exchange Commission	ZMSC	Zions Management Services Company
SNC	Shared National Credit		

### CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

The Company has made no significant changes in its critical accounting policies and significant estimates from those disclosed in its 2014 Annual Report on Form 10-K.

### RESULTS OF OPERATIONS

#### Executive Summary

Net earnings applicable to common shareholders for the third quarter of 2015 were \$84.2 million, or \$0.41 per diluted common share, compared to a net loss applicable to common shareholders of \$(1.1) million, or \$(0.01) per diluted common share, for the second quarter of 2015 and net income of \$79.1 million, or \$0.40 per diluted common share for the third quarter of 2014. The Company's second quarter results included a \$137 million loss, or \$0.42 per diluted share, from the sale of remaining collateralized debt obligation ("CDO") securities. Excluding this loss, net earnings applicable to common shareholders was \$83.4 million, or \$0.41 per diluted common share, for the second quarter of 2015.

Highlights from the third quarter include:

- Total noninterest expense was \$396 million during the third quarter and \$1,198 million year-to-date, compared to \$404 million and \$802 million last quarter, and \$439 million and \$1,243 million during the third quarter of 2014. As previously committed, the Company is on track to achieve 50% of its gross \$120 million expense reduction by the end of 2015 and to hold adjusted noninterest expense below \$1.6 billion in 2015.
- The efficiency ratio improved to 69.5% during the third quarter, compared to 71.4% during the second quarter, and 73.0% for the third quarter of 2014, reflecting progress towards the Company's commitment to have this ratio be at or less than 70% for the second half of 2015.
- The credit quality of the Company's overall loan portfolio remained strong, with moderate deterioration in energy loans as explained subsequently. When compared to the prior quarter's level, classified loans increased 2%, nonperforming assets declined 4%, and net charge-offs excluding energy loans were stable. Compared to the same prior year period, classified loans and nonperforming assets each increased 11%.
- Energy loan net charge-offs were \$17 million during the third quarter; there were no energy loan net charge-offs during the second quarter. The Company increased the allowance for credit losses ("ACL") on its energy portfolio in part due to the decline in energy prices during the third quarter. This contributed to an increased provision for loan losses of \$18.3 million during the third quarter, compared to \$0.6 million during the second quarter. The overall performance of the energy loan portfolio has been substantially consistent with the Company's initial communications in late 2014, which concluded that some deterioration was expected from

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declining energy prices; however, we expect disciplined underwriting and strong reserves will keep the impact relatively modest to net charge-offs and overall profitability.

- Net interest income increased slightly from the prior quarter while the net interest margin declined to 3.11% from 3.18%, primarily driven by an increased concentration of cash and securities and a decline in the yield of the loan portfolio attributable primarily to the waning benefit from loans purchased from the Federal Deposit Insurance Corporation (“FDIC”) in 2009. Net interest income increased in the third quarter by \$8.6 million, or 2%, compared to the same prior year period primarily as a result of the extinguishment of certain long-term debt.
- Loans held for investment increased \$89 million during the third quarter. Excluding the effect of attrition in energy-related loans and the National Real Estate portfolio, loans increased \$285 million during the third quarter, compared to a \$259 million increase during the second quarter calculated on the same basis. Loans held for investment increased \$374 million during the third quarter compared to the same prior year period primarily from increased construction and land development and commercial and industrial loans.

### Efficiency Initiatives

During the second quarter of 2015, we announced a corporate restructuring in conjunction with several expense and revenue initiatives that are expected to substantially improve our profitability metrics, including:

- consolidate bank charters from seven to one while maintaining local leadership, local product pricing, and local brands;
- create a chief banking officer position, with responsibility for retail banking, wealth management, and residential mortgage lending;
- consolidate risk functions, while emphasizing local credit decision-making;
- consolidate various non-customer facing operations; and
- continue to invest in building best-in-class technology.

We have received approvals from the OCC and the FDIC and expect to complete the mergers following the close of business on December 31, 2015. We will continue to emphasize our locally-oriented leadership structure and the power of our strong local brands in each market we serve. The consolidation of our bank charters will facilitate a simpler and more responsive operating environment and the realization of efficiencies more quickly and in greater measure than is possible under the status quo.

These changes are designed to improve the customer experience (e.g., faster turnaround times), simplify the corporate structure and how we do business, and drive substantial positive operating leverage. The increase in operating leverage is expected to come through increased revenue from growth in loans, deployment of cash to mortgage-backed securities, increased use of interest rate swaps, and improvement in core fee income.

Once implemented, these changes should ultimately produce better revenue and expense trajectories. The following are the targeted financial performance outcomes of these organizational changes, and associated operational and technological initiatives with some brief comments regarding current performance against these measures:

- Achieve an efficiency ratio in the low 60s by fiscal year 2017, driven by expense and revenue initiatives detailed below; the announced target assumes a slight increase in interest rates. We also have intermediate goals of an efficiency ratio less than or equal to 70% in the second half of 2015 and less than or equal to 66% in 2016. The efficiency ratio improved to 69.5% during the third quarter, compared to 71.4% during the second quarter. See “GAAP to Non-GAAP Reconciliations” on page 90 for more information regarding the calculation of the efficiency ratio.
- Increase returns on tangible common equity over the long term to double digit levels. For the third quarter, the tangible return on average tangible common equity was 6.05%, compared to 0.03% for the second quarter (decreased due to the loss from sales of CDO securities), and 6.19% for the third quarter of 2014.



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- Maintain noninterest expense below \$1.6 billion in 2015 and 2016, and increasing somewhat in 2017; this target excludes those same expense items excluded in arriving at the efficiency ratio (see “GAAP to Non-GAAP Reconciliations” on page 90 for more information regarding the calculation of the efficiency ratio). We are encouraged with the achievement of noninterest expenses at or below the \$400 million level for the third quarter. We are working to realize the remainder of the gross cost savings for 2015 and to keep noninterest expense below \$1.6 billion in 2016 as well.
- Achieve gross pretax cost savings of \$120 million annually from operational expense initiatives by fiscal year 2017, which include overhauling technology, consolidating legal charters, and improving operating efficiency across the Company. We are on track to achieve half of the targeted cost reductions by year-end.

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

Net interest income is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities; net interest income is the largest portion of our revenue. For the third quarter of 2015, taxable-equivalent net interest income was \$429.8 million, compared to \$428.0 million for the second quarter of 2015, and \$420.9 million for the third quarter of 2014.

#### *Net interest margin in 2015 vs. 2014*

The net interest margin was 3.11% and 3.20% for the third quarter of 2015 and 2014, respectively, and 3.18% for the second quarter of 2015. The decreased net interest margin for the third quarter of 2015, compared to the same prior year period, resulted primarily from lower yields on loans held for investment and an increased concentration of available-for-sale (“AFS”) securities.

Even though our average loan portfolio was \$458 million higher during the third quarter of 2015, compared to the third quarter of 2014, the average interest rate earned on those assets was 4.18%, which is 15 bps lower than the comparable prior year period. This decline in interest income was primarily caused by reduced interest income on loans purchased from the FDIC in 2009, as those acquired portfolios were successfully managed down, and new loans being originated at lower yields than those that are prepaying and maturing.

The average balance of AFS securities for the third quarter of 2015 increased by \$1.9 billion, or 55.3%, while the average yield was 25 bps lower compared to the same prior year period. The decline in the average yield and the changes in the average balance are a result of changes in the composition of the AFS portfolio and the yields of the securities sold and purchased. Beginning in the second half of 2014, to improve the yield of the securities portfolio while maintaining holdings of high quality liquid assets (“HQLA”) securities, we started purchasing U.S. agency pass-through securities. These increases were partially offset by CDO sales and paydowns.

Average noninterest-bearing demand deposits provided us with low cost funding and comprised 44.1% of average total deposits for the third quarter of 2015, compared to 43.1% for third quarter of 2014. Average interest-bearing deposits increased by 3.8% in the third quarter of 2015, compared to the same prior year period, while the average rate paid declined by 1 bp to 18 bps.

The average balance of long-term debt was \$844 million lower for the third quarter of 2015 compared to the same prior year period. The reduced balance was a result of tender offers, early calls, and maturities, including \$835 million during the third quarter of 2014. The average interest rate paid on long-term debt for the third quarter of 2015 increased by 43 bps compared to the same prior year period. This is due to the remaining average balance of long-term debt being at a higher interest rate than the debt that was redeemed during the past year. Some of the higher cost long-term debt matured in the latter part of the third quarter and more will mature in the fourth quarter. On September 15, 2015, approximately \$109 million carrying value of 6.0% subordinated and convertible subordinated notes matured. The total effective cost of this debt was approximately 17% during 2015; the higher effective cost was due to the amortization of debt discount. On November 16, 2015, approximately \$124 million par amount of similar 5.5% notes that currently have an effective cost of approximately 14% will mature. We continue

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to look for opportunities to manage down the cost of funds. Refer to the “Liquidity Risk Management” section beginning on page 84 for more information.

During the third quarter of 2015, most of our cash in excess of that needed to fund other interest-earning assets was invested in money market assets, primarily deposits with the Federal Reserve Bank. Average money market investments were 16.0% of total interest-earning assets, compared to 16.3% in the same prior year period.

See “Interest Rate and Market Risk Management” on page 80 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 2.91% and 2.92% for the third quarters of 2015 and 2014, respectively. The rate on interest-earning assets in the third quarter of 2015 of 3.34% was 19 bps lower than that in the same prior year period, and the cost on interest-bearing liabilities declined by 18 bps during the same comparable periods.

We expect the mix of interest-earning assets to continue to change over the next several quarters due to slight-to-moderate loan growth in the commercial and industrial portfolios, accompanied by somewhat less growth in commercial real estate loans. In addition, as discussed below, we are incrementally investing in short-to-medium duration U.S. agency pass-through securities that qualify as HQLA; over time we expect these investments to reduce the proportion of earning assets in money market investments, and increase the proportion of AFS securities. Average yields on the loan portfolio may 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 compared to the prior two years. We believe that some of the downward pressure on the net interest margin will be mitigated by lower interest expense on reduced levels of long-term debt due to maturities that occurred late in the third quarter of 2015 and will occur in the fourth quarter. We also believe we can offset some of the pressure on the net interest margin through loan growth, purchases of AFS securities, and employment of interest rate swaps designated as cash flow hedges.

We expect to remain “asset-sensitive” (which refers to net interest income increasing as a result of a rising interest rate environment) with regard to interest rate risk. In response to new liquidity and liquidity stress-testing regulations, which elevate, relative to historic levels, the proportion of HQLA we will be required to hold, we decided in the second half of 2014 to begin deploying cash into short-to-medium duration U.S. agency pass-through securities. In the third quarter of 2015, we purchased HQLA securities of \$1.6 billion at amortized cost, increasing HQLA securities by \$1.4 billion after paydowns and payoffs during the quarter, and we are continuing these purchases. Over time these purchases are expected to somewhat reduce our asset sensitivity compared to previous periods. Our estimates of the Company’s actual interest rate risk position are highly dependent upon a number of assumptions regarding the repricing behavior of various deposit and loan types in response to changes in both short-term and long-term interest rates, balance sheet composition, and other modeling assumptions, as well as the actions of competitors and customers in response to those changes. In addition, our modeled projections for noninterest-bearing demand deposits, a substantial portion of our deposit balances are particularly reliant on assumptions for which there is little historical experience due to the prolonged period of very low interest rates. Further detail on interest rate risk is discussed in “Interest Rate Risk” on page 80.

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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.

**CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES**

(Unaudited)

<i>(In thousands)</i>	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
	Average balance	Amount of interest <sup>1</sup>	Average yield/rate	Average balance	Amount of interest <sup>1</sup>	Average yield/rate
<b>ASSETS</b>						
Money market investments	\$ 8,775,823	\$ 6,018	0.27%	\$ 8,492,772	\$ 5,483	0.26%
Securities:						
Held-to-maturity	553,615	7,075	5.07%	612,244	7,912	5.13%
Available-for-sale	5,254,986	24,502	1.85%	3,383,618	17,937	2.10%
Trading account	47,235	445	3.74%	50,970	403	3.14%
Total securities	<u>5,855,836</u>	<u>32,022</u>	2.17%	<u>4,046,832</u>	<u>26,252</u>	2.57%
Loans held for sale	131,113	1,222	3.70%	124,347	1,179	3.76%
Loans and leases <sup>2</sup>						
Commercial	21,289,641	222,478	4.15%	21,125,766	232,290	4.36%
Commercial real estate	10,170,539	114,695	4.47%	10,378,969	117,290	4.48%
Consumer	8,565,075	84,200	3.90%	8,062,690	81,813	4.03%
Total loans and leases	<u>40,025,255</u>	<u>421,373</u>	4.18%	<u>39,567,425</u>	<u>431,393</u>	4.33%
Total interest-earning assets	54,788,027	460,635	3.34%	52,231,376	464,307	3.53%
Cash and due from banks	583,936			858,179		
Allowance for loan losses	(602,677)			(674,590)		
Goodwill	1,014,129			1,014,129		
Core deposit and other intangibles	19,726			29,535		
Other assets	2,602,639			2,669,260		
Total assets	<u>\$ 58,405,780</u>			<u>\$ 56,127,889</u>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Interest-bearing deposits:						
Savings and money market	\$ 24,676,897	9,895	0.16%	\$ 23,637,158	9,404	0.16%
Time	2,242,064	2,445	0.43%	2,466,552	2,809	0.45%
Foreign	441,670	202	0.18%	254,549	100	0.16%
Total interest-bearing deposits	<u>27,360,631</u>	<u>12,542</u>	0.18%	<u>26,358,259</u>	<u>12,313</u>	0.19%
Borrowed funds:						
Federal funds and other short-term borrowings	211,322	76	0.14%	176,383	52	0.12%
Long-term debt	1,033,818	18,235	7.00%	1,878,247	31,092	6.57%
Total borrowed funds	<u>1,245,140</u>	<u>18,311</u>	5.83%	<u>2,054,630</u>	<u>31,144</u>	6.01%
Total interest-bearing liabilities	28,605,771	30,853	0.43%	28,412,889	43,457	0.61%
Noninterest-bearing deposits	21,558,557			19,933,228		
Other liabilities	581,880			556,416		
Total liabilities	50,746,208			48,902,533		
Shareholders' equity:						
Preferred equity	1,004,059			1,004,012		
Common equity	6,655,513			6,221,344		
Total shareholders' equity	<u>7,659,572</u>			<u>7,225,356</u>		
Total liabilities and shareholders' equity	<u>\$ 58,405,780</u>			<u>\$ 56,127,889</u>		
Spread on average interest-bearing funds			2.91%			2.92%
Taxable-equivalent net interest income and net yield on interest-earning assets		<u>\$ 429,782</u>	3.11%		<u>\$ 420,850</u>	3.20%

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(In thousands)	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	Average balance	Amount of interest <sup>1</sup>	Average yield/rate	Average balance	Amount of interest <sup>1</sup>	Average yield/rate
<b>ASSETS</b>						
Money market investments	\$ 8,404,053	\$ 17,021	0.27%	\$ 8,046,760	\$ 15,501	0.26%
Securities:						
Held-to-maturity	589,673	22,431	5.09%	600,127	24,143	5.38%
Available-for-sale	4,644,554	67,981	1.96%	3,403,117	56,913	2.24%
Trading account	64,534	1,653	3.42%	58,786	1,451	3.30%
Total securities	5,298,761	92,065	2.32%	4,062,030	82,507	2.72%
Loans held for sale	117,351	3,138	3.58%	131,575	3,600	3.66%
Loans and leases <sup>2</sup>						
Commercial	21,463,558	672,468	4.19%	21,062,688	691,357	4.39%
Commercial real estate	10,115,149	337,980	4.47%	10,417,054	367,710	4.72%
Consumer	8,532,595	250,191	3.92%	7,933,810	242,150	4.08%
Total loans and leases	40,111,302	1,260,639	4.20%	39,413,552	1,301,217	4.41%
Total interest-earning assets	53,931,467	1,372,863	3.40%	51,653,917	1,402,825	3.63%
Cash and due from banks	639,049			937,858		
Allowance for loan losses	(611,062)			(717,999)		
Goodwill	1,014,129			1,014,129		
Core deposit and other intangibles	22,055			32,260		
Other assets	2,577,128			2,614,959		
Total assets	<u>\$ 57,572,766</u>			<u>\$ 55,535,124</u>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Interest-bearing deposits:						
Savings and money market	\$ 24,470,254	29,083	0.16%	\$ 23,344,375	27,325	0.16%
Time	2,304,572	7,447	0.43%	2,511,098	8,810	0.47%
Foreign	373,390	437	0.16%	749,413	1,053	0.19%
Total interest-bearing deposits	27,148,216	36,967	0.18%	26,604,886	37,188	0.19%
Borrowed funds:						
Federal funds and other short-term borrowings	215,088	228	0.14%	228,546	182	0.11%
Long-term debt	1,068,891	56,290	7.04%	2,050,189	104,098	6.79%
Total borrowed funds	1,283,979	56,518	5.89%	2,278,735	104,280	6.12%
Total interest-bearing liabilities	28,432,195	93,485	0.44%	28,883,621	141,468	0.65%
Noninterest-bearing deposits	21,033,053			19,240,639		
Other liabilities	584,672			550,780		
Total liabilities	50,049,920			48,675,040		
Shareholders' equity:						
Preferred equity	1,004,035			1,003,990		
Common equity	6,518,811			5,856,094		
Total shareholders' equity	7,522,846			6,860,084		
Total liabilities and shareholders' equity	<u>\$ 57,572,766</u>			<u>\$ 55,535,124</u>		
Spread on average interest-bearing funds			2.96%			2.98%
Taxable-equivalent net interest income and net yield on interest-earning assets		<u>\$ 1,279,378</u>	3.17%		<u>\$ 1,261,357</u>	3.26%

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

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

### Provisions for Credit Losses

The provision for loan losses is the amount of expense that, in our judgment, is required to maintain the allowance for loan losses at an adequate level based on the inherent risks in the loan portfolio. The provision for unfunded lending commitments is used to maintain the reserve for unfunded lending commitments ("RULC") at an adequate level based on the inherent risks associated with such commitments. In determining adequate levels of the

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allowance and reserve, we perform periodic evaluations of our 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 69 for more information on how we determine the appropriate level for the allowance for loan and lease losses (“ALLL”) and the RULC.

During the past few years, we have experienced a significant improvement in credit quality metrics; however, recently we have experienced deterioration in various credit quality metrics primarily associated with energy-related loans at Amegy Bank. Overall credit quality metrics for the third quarter of 2015 compared to the same prior year period deteriorated moderately. Gross loan and lease charge-offs increased to \$42 million in the third quarter of 2015, compared to \$26 million in the same prior year period. Additionally, we had gross recoveries of \$11 million in the third quarter of 2015, compared to \$16 million in the same prior year period.

Nonperforming assets increased to \$372 million at September 30, 2015 from \$326 million at December 31, 2014. The ratio of nonperforming assets to loans and leases and other real estate owned (“OREO”) increased to 0.92% at September 30, 2015 from 0.81% at December 31, 2014. Classified loans increased to \$1.3 billion at September 30, 2015 from \$1.1 billion at December 31, 2014. Approximately 84% of classified loans at September 30, 2015 were current as to principal and interest payments, compared to 83% at December 31, 2014. Classified loans are loans with well-defined credit weaknesses that are risk graded Substandard or Doubtful.

The allowance for loan losses decreased by approximately \$8.2 million since December 31, 2014, due to improvements in credit quality metrics outside of the energy portfolio, which outweighed deterioration within the energy portfolio. This resulted in a provision of \$18.3 million in the third quarter of 2015, compared to a provision of \$(54.6) million in the third quarter of 2014. The negative provision in the third quarter of 2014 was due to the continued improvement in portfolio-specific credit quality metrics and sustained improvement in broader economic and credit quality indicators up to that point. During the third quarter of 2015, the provision increased by \$17.7 million compared to the second quarter of 2015 due to an increase in charge-offs, particularly in the energy portfolio. We continue to exercise caution with regard to the appropriate level of the allowance for loan losses, given the state of the economy and the sensitivity of the energy loan portfolio to oil and gas prices. Refer to the “Energy-Related Exposure” section on page 70 for more information.

During the third quarter of 2015, we recorded a \$1.4 million provision for unfunded lending commitments compared to \$(16.1) million in the third quarter of 2014. The provision recognized in the third quarter of 2015 is primarily due to the proportionally large amount of unfunded commitments in the energy portfolio compared to the rest of the portfolio. The negative provision in the third quarter of 2014 was primarily due to significant improvement in portfolio-specific credit quality metrics, sustained improvement in broader economic and credit quality indicators, and changes in the portfolio mix. From quarter to quarter, the provision for unfunded lending commitments may be subject to sizable fluctuations due to changes in the timing and volume of loan commitments, originations, funding, and changes in credit quality.

### **Noninterest Income**

Noninterest income represents revenues we earn for products and services that have no associated interest rate or yield. For the third quarter of 2015, noninterest income was \$130.8 million, compared to \$116.1 million for the same prior year period. The \$14.7 million increase was primarily attributable to \$13.9 million of fixed income securities losses during the third quarter of 2014 related to the sales of certain CDO securities. The following are the other major components of noninterest income line items impacting the third quarter change.

Equity securities gains increased by \$3.2 million in the third quarter of 2015 compared to the same prior year period. The equity securities gains were primarily due to unrealized gains on the Company’s Small Business Investment Company (“SBIC”) investments.

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Dividends and other investment income declined by \$2.9 million in the third quarter of 2015 compared to the same prior year period. The decline was primarily a result of lower income from the Company's private equity investments ("PEIs"). As part of the Company's initiative to consolidate its charters into a single charter, the Company expects to only have shares in the Federal Home Loan Bank ("FHLB") in Des Moines, and the Company's subsidiary banks are expected to redeem their shares in the other respective FHLBs, most likely in the second quarter of 2016. As a result of this consolidation, the amount of FHLB dividends received is expected to be reduced in 2016. For the first nine months of 2015, we received approximately \$6.0 million of FHLB dividend income. Additionally, Congress is considering reducing the dividends that certain banks receive from shares held in the Federal Reserve Board ("FRB"). For the first nine months of 2015, we received approximately \$5.5 million of FRB dividend income.

For the first nine months of 2015, noninterest income decreased by \$126.2 million, compared to the first nine months of 2014. The decrease was primarily a result of a one-time loss related to the sale of CDO securities, resulting in a decline of \$160.8 million in fixed securities gains compared to the first nine months of 2014. These losses were partially offset by an increase in other service charges, commissions and fees, fair value and nonhedge derivative income, and equity securities gains. All significant components impacting the first nine months of the year not explained above are as follows.

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 \$8.2 million in the first nine months of 2015, compared to the same prior year period. The increase was primarily due to increased interchange and merchant fees from commercial credit cards and from interest rate swap management fees.

Fair value and nonhedge derivative income represents the fair value gains and losses from nonhedge credit derivatives as well as the fees on a total return swap. Fair value and nonhedge derivative income improved by \$9.6 million to a loss of \$(0.8) million for the first nine months of 2015 from a loss of \$(10.4) million for the first nine months of 2014. The improvement was primarily due to fees paid on the total return swap in 2014; the total return swap was terminated in the second quarter of 2014 and, therefore, there were no fees on the swap in 2015.

### **Noninterest Expense**

Noninterest expense decreased by \$42.4 million, or 9.7%, to \$396.1 million in the third quarter of 2015, compared to the same prior year period. The decline in noninterest expense was primarily caused by a decline in debt extinguishment cost and other noninterest expense. The decline was partially offset by an increase in the provision for unfunded lending commitments. The following are major components of noninterest expense line items impacting the third quarter change.

We did not have any debt extinguishment cost in the third quarter of 2015 compared to \$44.4 million in the third quarter of 2014 when the Company redeemed approximately \$500 million par amount of senior notes through tender offers.

Other noninterest expense for the third quarter of 2015 was \$56.3 million, compared to \$66.7 million for the same prior year period. The decrease is primarily due to decreased write-downs of the FDIC indemnification asset. The balance of FDIC-supported/PCI loans has declined significantly since the third quarter of 2014, primarily due to paydowns and payoffs. Additionally the decrease was due to a decline in travel expenses as we continue to focus on cost savings across the Company.

For the first nine months of 2015, noninterest expense decreased by \$44.9 million, compared to the first nine months of 2014. The decrease was primarily related to a decrease of \$42.0 million debt extinguishment cost and \$38.2 million in other noninterest expense for the first nine months of 2015, compared to the first nine months of 2014. The decrease in noninterest expense for the first nine months of 2015, compared to the first nine months of

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2014, was partially offset by a \$19.0 million increase in salaries and employee benefits. Most of the increase in salaries and employee benefits can be attributed to higher base salaries even though the number of full-time equivalent employees declined by 276 in the third quarter of 2015, compared to the third quarter of 2014. Our overall headcount was 10,219 full-time equivalent employees as of September 30, 2015, compared to 10,495 at September 30, 2014. Staff reductions, primarily at several subsidiary banks, were partially offset by increased headcount in specific areas, including our major systems projects, compliance, and build-out of enterprise risk management and stress-testing functions. As discussed previously, efforts are underway to streamline some of these functions across the Company.

The FDIC has proposed a change in deposit insurance assessments that implements a Dodd-Frank Act provision requiring banks with over \$10 billion in assets to be responsible for recapitalizing the FDIC insurance fund to 1.35% of insured deposits by the end of 2018, after it reaches a 1.15% reserve ratio. If the rule is finalized, it may go into effect in the first or second quarter of 2016.

We plan to hold noninterest expense to below \$1.6 billion, adjusted for certain expense items, in 2015 and 2016, with a slight increase in 2017. The expense items that we exclude from the targeted noninterest expense of \$1.6 billion are the same as those excluded in arriving at the efficiency ratio (see “GAAP to Non-GAAP Reconciliations” on page 90 for more information regarding the calculation of the efficiency ratio).

### **Income Taxes**

Income tax expense for the third quarter of 2015 was \$40.8 million, compared to \$53.1 million for the same period in 2014. The effective income tax rates for these periods were 28.8% and 35.6%, respectively. The 2015 tax rate was lower primarily due to the recognition of tax credits for certain research and development initiatives and for a project related to alternative energy that was placed in service during the third quarter of 2015. The year-to-date tax rates for 2015 and 2014 were 32.0% and 36.1%, respectively. The 2015 tax rate was lower due to the recognition of tax credits and to an increase in the proportion of nontaxable items relative to pretax income, as well as the 2014 accrual of \$2.3 million of interest expense reflected in tax expense.

We had a net deferred tax asset (“DTA”) balance of \$201 million at September 30, 2015, compared to \$224 million at December 31, 2014. The decrease resulted primarily from items related to loan charge-offs in excess of loan loss provisions, earning differences from equity investments, the payout of accrued compensation, and the realization of losses related to the sale of CDO securities in 2015. The decrease in the DTA was partially offset by decreases in deferred tax liabilities related to premises and equipment and the deferred gain on the Company’s 2009 debt exchange.

### **Preferred Dividends**

On October 19, 2015, we announced the commencement of a \$180 million cash tender offer to purchase certain outstanding preferred stock and depositary shares. The ultimate amount purchased will be determined by the success of the tender offer, which will expire on November 16, 2015. Depending upon the total amount and mix of series of preferred stock purchased from this offer, preferred stock dividends during 2016 may be reduced by approximately \$10 million.

## BALANCE SHEET ANALYSIS

### Interest-Earning Assets

Interest-earning assets are those assets that have interest rates or yields associated with them. One of our goals is to maintain a high level of interest-earning assets relative to total assets while keeping nonearning assets at a minimum. Interest-earning assets consist of money market investments, securities, loans, and leases.

The schedule referred to in our discussion of net interest income includes the average balances of our 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, we began to incrementally deploy some of our excess cash into short-to-medium duration pass-through U.S. agency securities that qualify as HQLA under new Liquidity Coverage Ratio (“LCR”) and liquidity stress-testing regulations. As a result of this, in the third quarter of 2015, we purchased HQLA securities of \$1.6 billion at amortized cost, increasing HQLA securities by \$1.4 billion after paydowns and payoffs during the quarter, and we are continuing these purchases.

Average interest-earning assets were \$53.9 billion for the first nine months of 2015, compared to \$51.7 billion for the first nine months of 2014. Average interest-earning assets as a percentage of total average assets for the first nine months of 2015 were 93.7%, compared to 93.0% in the corresponding prior year period.

Average loans were \$40.1 billion and \$39.4 billion for the first nine months of 2015 and 2014, respectively. Average loans as a percentage of total average assets for the first nine months of 2015 were 69.7%, compared to 71.0% in the corresponding prior year period.

Average money market investments, consisting of interest-bearing deposits, federal funds sold, and security resell agreements, increased by 4.4% to \$8.4 billion for the first nine months of 2015, compared to \$8.0 billion for the first nine months of 2014. Average securities increased by 30.4% for the first nine months of 2015, compared to the first nine months of 2014. Average total deposits increased by 5.1% resulting from an increase in noninterest-bearing deposits and savings and money market deposits.

### Investment Securities Portfolio

We invest in securities to actively manage liquidity and interest rate risk, in addition to generating revenues for the Company. Refer to the “Liquidity Risk Management” section on page 84 for additional information on management of liquidity and funding and compliance with Basel III and LCR requirements. The following schedule presents a profile of our investment securities portfolio. The amortized cost amounts represent the original cost of the investments, adjusted for related accumulated amortization or accretion of any yield adjustments, and for impairment losses, including credit-related impairment. The estimated fair value measurement levels and methodology are discussed in Note 10 of the Notes to Consolidated Financial Statements.



## ZIONS BANCORPORATION AND SUBSIDIARIES

**INVESTMENT SECURITIES PORTFOLIO**

<i>(In millions)</i>	September 30, 2015				December 31, 2014			
	Par value	Amortized cost	Carrying value	Estimated fair value	Par value	Amortized cost	Carrying value	Estimated fair value
<b>Held-to-maturity</b>								
Municipal securities	\$ 545	\$ 544	\$ 544	\$ 553	\$ 608	\$ 608	\$ 608	\$ 620
Asset-backed securities:								
Trust preferred securities – banks and insurance	—	—	—	—	89	79	39	57
	<u>545</u>	<u>544</u>	<u>544</u>	<u>553</u>	<u>697</u>	<u>687</u>	<u>647</u>	<u>677</u>
<b>Available-for-sale</b>								
U.S. Government agencies and corporations:								
Agency securities	1,103	1,103	1,110	1,110	606	607	601	601
Agency guaranteed mortgage-backed securities	2,695	2,806	2,813	2,813	899	935	945	945
Small Business Administration loan-backed securities	1,636	1,816	1,819	1,819	1,400	1,544	1,552	1,552
Municipal securities	208	213	213	213	187	189	189	189
Other debt securities	26	25	23	23	—	—	—	—
Asset-backed securities:								
Trust preferred securities – banks and insurance	—	—	—	—	659	538	415	415
Other	—	—	—	—	7	6	6	6
	<u>5,668</u>	<u>5,963</u>	<u>5,978</u>	<u>5,978</u>	<u>3,758</u>	<u>3,819</u>	<u>3,708</u>	<u>3,708</u>
Money market mutual funds and other	22	22	22	22	137	137	136	136
	<u>5,690</u>	<u>5,985</u>	<u>6,000</u>	<u>6,000</u>	<u>3,895</u>	<u>3,956</u>	<u>3,844</u>	<u>3,844</u>
Total	<u>\$ 6,235</u>	<u>\$ 6,529</u>	<u>\$ 6,544</u>	<u>\$ 6,553</u>	<u>\$ 4,592</u>	<u>\$ 4,643</u>	<u>\$ 4,491</u>	<u>\$ 4,521</u>

The amortized cost of investment securities at September 30, 2015 increased by 40.6% from the balances at December 31, 2014, primarily due to purchases of agency guaranteed mortgage-backed securities. There were additional increases in agency securities and Small Business Administration (“SBA”) loan-backed securities. These increases were partially offset by the sale of the remaining CDO portfolio during the second quarter of 2015.

The investment securities portfolio includes \$294 million of net premium almost exclusively from SBA loan-backed securities and agency guaranteed mortgage-backed securities. Recent purchases of these securities have occurred at a premium to the respective par amount. The amortization of these premiums each quarter is dependent upon borrower prepayment behavior. Premium amortization for the third quarter of 2015 was approximately \$14 million, compared to approximately \$10 million in the second quarter of 2015, and is included in portfolio yields. The increased premium amortization is due to both an increased amount of agency guaranteed mortgage-backed securities and SBA loan-backed securities and changes in prepayment rates of the underlying loans.

During the first quarter of 2015, we reclassified all of the remaining held-to-maturity (“HTM”) CDO securities, or approximately \$79 million at amortized cost, to AFS securities. See Note 5 of the Notes to Consolidated Financial Statements for further discussion regarding this reclassification.

As of September 30, 2015, under the GAAP fair value accounting hierarchy, 0.3% of the \$6.0 billion fair value of the AFS securities portfolio was valued at Level 1, 99.7% was valued at Level 2, and there were no Level 3 AFS securities as a result of the sale of the remaining CDO securities. At December 31, 2014, 2.7% of the \$3.8 billion fair value of AFS securities portfolio was valued at Level 1, 86.8% was valued at Level 2, and 10.5% was valued at Level 3. See Note 10 of the Notes to Consolidated Financial Statements for further discussion of fair value accounting.

## ZIONS BANCORPORATION AND SUBSIDIARIES

**Exposure to State and Local Governments**

We provide multiple products and services to state and local governments (referred together as “municipalities”), including deposit services, loans, and investment banking services, and we invest in securities issued by the municipalities.

The following schedule summarizes our exposure to state and local municipalities:

**MUNICIPALITIES**

<i>(In millions)</i>	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Loans and leases	\$ 600	\$ 521
Held-to-maturity – municipal securities	544	608
Available-for-sale – municipal securities	213	189
Available-for-sale – auction rate securities	—	5
Trading account – municipal securities	58	53
Unfunded lending commitments	83	58
Total direct exposure to municipalities	<u>\$ 1,498</u>	<u>\$ 1,434</u>

At September 30, 2015, \$1.0 million of loans to one municipality were on nonaccrual. A significant amount of the municipal loan and lease portfolio is secured by real estate and equipment, and approximately 86% of the outstanding credits were originated by CB&T, Zions Bank, Vectra, and NBAZ. 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. Prior to purchase, the issuers of municipal securities are evaluated by the Company for their creditworthiness, and some of the securities are guaranteed by third parties. As of September 30, 2015, the AFS municipal securities were issued by issuers with investment-grade ratings from one or more major credit rating agencies.

**Foreign Exposure and Operations**

We have de minimis credit exposure to foreign sovereign risks and we do not believe our total foreign credit exposure is material. We also do not have significant foreign exposure to derivative counterparties. Foreign loans to non-sovereign entities consist primarily of commercial and industrial loans and totaled \$183 million at September 30, 2015 and \$144 million at December 31, 2014.

Our foreign operations are comprised of Amegy Bank operating a branch in Grand Cayman, Grand Cayman Islands, B.W.I. Amegy Bank’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 as a result of these operations. Foreign deposits were \$442 million at September 30, 2015 and \$328 million at December 31, 2014.

**Loan Portfolio**

For the first nine months of 2015 and 2014, average loans accounted for 69.7% and 71.0%, respectively, of total average assets. As presented in the following schedule, commercial and industrial loans were the largest category and constituted 32.5% of our loan portfolio at September 30, 2015.

## ZIONS BANCORPORATION AND SUBSIDIARIES

**LOAN PORTFOLIO**

<i>(Amounts in millions)</i>	September 30, 2015		December 31, 2014	
	Amount	% of total loans	Amount	% of total loans
Commercial:				
Commercial and industrial	\$ 13,035	32.5%	\$ 13,163	32.9%
Leasing	427	1.1	409	1.0
Owner occupied	7,141	17.8	7,351	18.3
Municipal	600	1.5	521	1.3
Total commercial	21,203	52.9	21,444	53.5
Commercial real estate:				
Construction and land development	2,214	5.5	1,986	5.0
Term	8,089	20.2	8,127	20.3
Total commercial real estate	10,303	25.7	10,113	25.3
Consumer:				
Home equity credit line	2,347	5.8	2,321	5.8
1-4 family residential	5,269	13.1	5,201	13.0
Construction and other consumer real estate	370	0.9	371	0.9
Bankcard and other revolving plans	428	1.1	401	1.0
Other	193	0.5	213	0.5
Total consumer	8,607	21.4	8,507	21.2
Total net loans	<u>\$ 40,113</u>	<u>100.0%</u>	<u>\$ 40,064</u>	<u>100.0%</u>

Net loans and leases remained relatively constant at \$40.1 billion at September 30, 2015 compared to December 31, 2014.

Most of the loan portfolio growth during the first nine months of 2015 occurred in municipal, commercial construction and land development, and 1-4 family residential loans. The impact of these increases was partially offset by decreases in commercial and industrial, commercial owner occupied, and commercial real estate term loans. The loan portfolio increased primarily at CB&T, NBAZ, and Vectra, while balances declined at Amegy Bank and NSB.

Commercial owner occupied loans declined due primarily to the runoff and attrition of the National Real Estate portfolio at Zions Bank, which is expected to continue throughout 2015. The National Real Estate business is a wholesale business that depends on loan referrals from other community banking institutions. Due to generally soft loan demand nationally, many community banking institutions are retaining, rather than selling, their loan production.

We expect slight-to-moderate overall loan and lease growth during the rest of 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.

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

**Other Noninterest-Bearing Investments**

As part of the Company's initiative to consolidate its charters into a single charter, the Company will have shares in a single FHLB (Des Moines) and the Company's subsidiary banks are expected to redeem their shares of the other

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respective FHLBs, most likely in the second quarter of 2016. Our investment balance in Federal Reserve stock is expected to remain relatively stable. The following schedule sets forth the Company's other noninterest-bearing investments.

**OTHER NONINTEREST-BEARING INVESTMENTS**

<i>(In millions)</i>	September 30, 2015	December 31, 2014
Bank-owned life insurance	\$ 482	\$ 476
Federal Home Loan Bank stock	68	104
Federal Reserve stock	123	121
Farmer Mac stock	29	26
SBIC investments	112	86
Non-SBIC investment funds	28	44
Others	9	9
	<u>\$ 851</u>	<u>\$ 866</u>

**Premises and Equipment**

Premises and equipment increased \$44 million, or 5.3%, during the first nine months of 2015 primarily due to capitalized costs associated with the development of a new corporate facility for Amegy Bank in Texas, and additionally from the capitalization of eligible costs related to the development of new lending, deposit and reporting systems.

**Deposits**

Deposits, both interest-bearing and noninterest-bearing, are a primary source of funding for the Company. Average total deposits for the first nine months of 2015 increased by 5.1%, compared to the first nine months of 2014, with average interest-bearing deposits increasing by 2.0% and average noninterest-bearing deposits increasing by 9.3%. The increase in noninterest-bearing deposits was largely driven by increased deposits from business customers. The average interest rate paid for interest-bearing deposits was 1 bp lower during the third quarter of 2015, compared to the third quarter of 2014.

Deposits at September 30, 2015, excluding time deposits \$100,000 and over and brokered deposits, increased by 2.6%, or \$1.2 billion, from December 31, 2014. The increase was mainly due to an increase in noninterest-bearing demand deposits, interest-bearing domestic savings and money market, and a slight increase in foreign deposits, offset by a decrease in time deposits under \$100,000.

Demand and savings and money market deposits were 94.6% and 94.3% of total deposits at September 30, 2015 and December 31, 2014, respectively.

During the first nine months of 2015, and throughout 2014, we maintained a low level of brokered deposits with the primary purpose of keeping that funding source available in case of a future need. At September 30, 2015 and December 31, 2014, total deposits included \$118 million and \$108 million, respectively, of brokered deposits.

See "Liquidity Risk Management" on page 84 for additional information on funding and borrowed funds.

**RISK ELEMENTS**

Since risk is inherent in substantially all of the Company's operations, management of risk is an integral part of its operations and is also a key determinant of its overall performance. The Board of Directors has appointed a Risk Oversight Committee ("ROC") that consists of appointed Board members who oversee the Company's risk management processes. The ROC meets on a regular basis to monitor and review Enterprise Risk Management ("ERM") activities. As required by its charter, the ROC performs oversight for various ERM activities and approves ERM policies and activities as detailed in the ROC charter.

## ZIONS BANCORPORATION AND SUBSIDIARIES

Management applies various strategies to reduce the risks to which the Company's operations are exposed, including credit, interest rate and market, liquidity, and operational risks. These risks are overseen by the various management committees of which the Enterprise Risk Management Committee ("ERMC") is the focal point for the monitoring and review of enterprise risk.

### **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.

The Board of Directors, through the ROC, is responsible for approving the overall policies relating to the management of the credit risk of the Company. In addition, the ROC oversees and monitors adherence to key policies and the credit risk appetite which is defined in the Risk Appetite Framework. Additionally, the Board has established the Corporate Credit Administration Committee ("CCAC"), consisting of members of management, to which it has delegated the responsibility for managing credit risk for the company.

Centralized oversight of credit risk is provided through credit policies, credit administration, and credit examination functions at the Parent. We separate the lending function from the credit administration function, which strengthens control over, and the independent evaluation of, credit activities. Formal loan policies and procedures provide the Company with a framework for consistent underwriting and a basis for sound credit decisions at the local subsidiary bank level. In addition, we have a well-defined set of standards for evaluating our loan portfolio and we utilize a comprehensive loan grading system to determine the risk potential in the portfolio. Furthermore, an independent internal credit examination department periodically conducts examinations of the Company's lending departments. These examinations are designed to review credit quality, adequacy of documentation, appropriate loan grading administration, and compliance with lending policies. Reports are submitted to management and to the ROC on a regular basis. 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 in order to develop and implement action plans on a timely basis to mitigate any potential losses.

Our credit risk management strategy includes diversification of our loan portfolio. We attempt to avoid the risk of an undue concentration of credits in a particular collateral type or with an individual customer or counterparty. Generally, our loan portfolio is well diversified; however, due to the nature of our geographical footprint, there are certain significant concentrations primarily in commercial real estate ("CRE") and energy-related lending. We have adopted and adhere 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. The recent growth in construction and land development loan commitments is within the established concentration limits. Our business activity is primarily with customers located within the geographical footprint of our subsidiary banks.

The credit quality of our loan portfolio remained generally strong during the first nine months of 2015, although we have recently experienced deterioration in various credit quality metrics primarily associated with energy-related loans at Amegy Bank. Nonperforming assets as a percentage of loans and leases and OREO increased slightly to 0.92% at September 30, 2015, compared to 0.81% at December 31, 2014. Gross charge-offs for the third quarter of 2015 increased to \$42.4 million from \$35.5 million in the fourth quarter of 2014. Net charge-offs increased to \$31.2 million from \$17.2 million for the same periods, primarily due to deterioration in energy-related loans.

**Government Agency Guaranteed Loans**

We participate in various guaranteed lending programs sponsored by U.S. government agencies, such as the SBA, FDIC, Federal Housing Authority, Veterans' Administration, Export-Import Bank of the U.S., and the U.S. Department of Agriculture. As of September 30, 2015, the guaranteed portion of these loans was approximately \$421 million. Most of these loans were guaranteed by the SBA.

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

**GOVERNMENT GUARANTEES**

<i>(Amounts in millions)</i>	<u>September 30, 2015</u>	<u>Percent guaranteed</u>	<u>December 31, 2014</u>	<u>Percent guaranteed</u>
Commercial	\$ 520	76%	\$ 539	76%
Commercial real estate	18	77	19	77
Consumer	15	88	17	86
Total loans	<u>\$ 553</u>	<u>76%</u>	<u>\$ 575</u>	<u>76%</u>

**Commercial Lending**

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

**COMMERCIAL LENDING BY INDUSTRY GROUP**

<i>(Amounts in millions)</i>	<u>September 30, 2015</u>		<u>December 31, 2014</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real estate, rental and leasing	\$ 2,387	11.3%	\$ 2,418	11.4%
Manufacturing	2,344	11.0	2,305	10.7
Mining, quarrying and oil and gas extraction <sup>1</sup>	1,965	9.3	2,277	10.6
Retail trade	1,942	9.2	1,924	9.0
Wholesale trade	1,647	7.8	1,638	7.6
Healthcare and social assistance	1,315	6.2	1,347	6.3
Finance and insurance	1,287	6.1	1,168	5.5
Transportation and warehousing	1,170	5.5	1,294	6.0
Construction	1,060	5.0	1,027	4.8
Accommodation and food services	946	4.4	911	4.2
Professional, scientific and technical services	876	4.1	884	4.1
Other <sup>2</sup>	4,265	20.1	4,251	19.8
Total	<u>\$ 21,204</u>	<u>100.0%</u>	<u>\$ 21,444</u>	<u>100.0%</u>

<sup>1</sup> Certain energy-related market segments (e.g. energy services) are also represented in other industry groups within this schedule.

<sup>2</sup> No other industry group exceeds 4%.

**Energy-Related Exposure**

Various industries represented in the previous schedule, including mining, quarrying and oil and gas extraction; manufacturing; and transportation and warehousing, contain certain loans we categorize as energy-related. At September 30, 2015, we had approximately \$5.4 billion of total energy-related credit exposure and \$2.8 billion of primarily oil and gas energy-related loan balances.

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The distribution of energy-related loans by customer market segment is shown in the following schedule:

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

<i>(Amounts in millions)</i>	September 30, 2015	% of total oil and gas- related	June 30, 2015	% of total oil and gas- related	March 31, 2015	% of total oil and gas- related
<b>Loans and leases</b>						
Oil and gas-related:						
Upstream – exploration and production	\$ 924	33%	\$ 954	33%	\$1,078	34%
Midstream – marketing and transportation	626	22	589	20	654	21
Downstream – refining	124	5	131	5	140	4
Other non-services	55	2	75	3	57	2
Oilfield services	825	29	879	30	959	30
Energy service manufacturing	251	9	255	9	269	9
Total oil and gas-related	<u>2,805</u>	100%	<u>2,883</u>	100%	<u>3,157</u>	100%
Alternative energy	214		222		232	
Total loans and leases	<u>3,019</u>		<u>3,105</u>		<u>3,389</u>	
Unfunded lending commitments	<u>2,364</u>		<u>2,403</u>		<u>2,451</u>	
Total credit exposure	<u>\$ 5,383</u>		<u>\$ 5,508</u>		<u>\$5,840</u>	
<b>Private equity investments</b>	<u>\$ 17</u>		<u>\$ 18</u>		<u>\$ 20</u>	
<b>Credit quality measures of oil and gas</b>						
Classified loan ratio	15.7%		11.3%		9.3%	
Nonperforming loan ratio	3.0%		2.3%		2.1%	
Net charge-off ratio, annualized	2.4%		—%		0.3%	

<sup>1</sup> Because many borrowers operate in multiple businesses, judgment has been applied in characterizing a borrower as energy-related, including a particular segment of energy-related activity, e.g., upstream or downstream.

During the third quarter of 2015, our overall balance of oil and gas-related loans decreased 2.7% to \$2.8 billion, compared to a decrease of 8.7% during the second quarter of 2015. In the third quarter of 2015, exploration and production loan balances decreased 3.1%, compared to a decrease of 11.6% in the second quarter of 2015. Energy service loan balances declined 5.1% in the third quarter of 2015, compared to a decrease of 7.6% in the second quarter of 2015. Unfunded energy-related lending commitments declined by \$39 million, or 1.6%, during the third quarter of 2015, compared to a decline of \$48 million, or 2.0%, during the second quarter of 2015. The decline in oil and gas-related credit exposure during the third quarter was consistent with expectations, and further attrition over the next several quarters is likely.

Our assessment of credit quality of the energy loan portfolio was consistent with the second quarter of 2015. At September 30, 2015, approximately \$84.5 million, or 3.0%, of the energy-related loan balances were nonaccruing; an increase from June 30, 2015, when \$66.4 million, or 2.3%, were nonaccruing. Approximately 45% of energy-related nonaccruing loans were current as to principal and interest payments at September 30, 2015, down from approximately 87% at June 30, 2015.

Classified energy-related credits increased to \$441.4 million at September 30, 2015, from \$324.8 million at June 30, 2015. Energy loan net charge-offs were \$16.9 million in the third quarter of 2015, compared to none in the second quarter. Generally consistent with expectations, the majority of loan downgrades in the third quarter reflected deterioration in the financial condition of oilfield services companies and, to a lesser degree, a small number of downgrades in the upstream portfolio. Further downgrades are likely; however, the Company currently believes it has established an appropriate reserve for the portfolio. The pattern of a significant increase in graded or classified energy loans as well as the increase in nonaccrual energy loans is generally consistent with prior cycles.

Our historical energy lending performance has been strong despite significant volatility in both oil and natural gas prices. Losses following the 2008-2009 period of oil and gas price declines and volatility were modest. Energy-

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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). Our 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 period.

*Upstream*

Upstream exploration and production loans comprised approximately 33% of the energy-related exposure at both September 30 and June 30, 2015. Many upstream borrowers have relatively balanced production between oil and gas.

We use disciplined underwriting practices to mitigate the risk associated with upstream lending activities. Upstream loans are made to reserve-based borrowers where approximately 90% of those loans are collateralized by the value of the borrower's oil and gas reserves. Our 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 and third party engineers and conservative underwriting, we apply multiple discounts. These discounts often range from 10-40% of the value of the collateral in determining the borrowing base (commitment), and help protect credit quality against significant commodity price declines. Further, reserve-based commitments are subject to a borrowing base redetermination based on then-current energy prices, typically every six months. Generally, we have, at our option, the right to conduct additional redeterminations during the year. Borrowing bases for clients are usually set at 60-70% of available collateral after an adjustment for the discounts described above.

Upstream borrowers generally do not draw the maximum available funding on their lines, which provides the borrower additional liquidity and flexibility. The line utilization rate for upstream borrowers was approximately 61% at both September 30 and June 30, 2015. This unused commitment gives us the ability in some cases to reduce the borrowing base commitment through the redetermination process without creating a borrowing base deficiency (where outstanding debt exceeds the new borrowing base). Nevertheless, our loan agreements generally require the borrowers to maintain a certain amount of equity. Therefore, if the loan to collateral value exceeds an acceptable limit, we work with the borrowers to reinstate an acceptable collateral-value threshold.

An additional metric we consider in our underwriting is a borrower's oil and gas price hedging practices. A considerable portion of our reserve-based borrowers are hedged. Of the upstream borrower's risk-based estimated oil production projected in 2015, approximately 55% is hedged based on weighted average commitments and the latest data provided by the borrowers.

*Midstream*

Midstream marketing and transportation loans comprised approximately 22% of our energy-related exposure as of September 30, 2015, compared to 20% as of June 30, 2015. Loans in this segment are made to companies that gather, transport, treat and blend oil and natural gas, or that provide services to similar companies. The assets owned by these borrowers, which make this activity possible, are field-level gathering systems (small diameter pipe), pipelines (medium/large diameter pipe), tanks, trucks, rail cars, various water-based vessels, and natural gas treatment plants. Our midstream loans are secured by these assets, unless the borrower is rated investment-grade. A significant portion of our midstream borrowers' revenues are derived from fee-based contracts, giving them limited exposure to commodity price risk. Since lower oil and gas prices slow the drilling and development of new oil and natural gas, but do not normally result in significant numbers of producing wells being shut in, volumes of oil and gas flowing through midstream systems usually remain relatively stable throughout oil and natural gas price cycles. During the 2008-2009 period of oil and gas price volatility, classified loans in the midstream segment peaked at a lower level than the upstream and energy services segments.

*Energy Services*

Energy service loans, which include oilfield services and energy service manufacturing comprised approximately 38% of our energy-related exposure as of September 30, 2015, compared to 39% as of June 30, 2015. Energy service loans include borrowers that have a concentration of revenues in the energy industry. However, many of



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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 require lower leverage to compensate for the cyclical nature of the industry. During the 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*

We apply concentration limits and disciplined underwriting to the entire energy-related portfolio to limit our risk exposure. Concentration limits on energy-related lending, coupled with adherence to our underwriting standards, served to constrain loan growth during the past several quarters. As an indicator of the diversity in the size of our energy-related portfolio's size, the average amount of our commitments is approximately \$7 million, with approximately 64% of the commitments less than \$30 million. The portfolio contains only senior loans – no junior or second lien positions; additionally, we cautiously approach making first-lien loans to borrowers that employ excessive leverage through the use of junior lien loans or unsecured layers of debt. Approximately 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 not secured are generally to investment-grade borrowers.

We participate as a lender in loans and commitments designated as Shared National Credits (“SNCs”), which generally consist of larger and more diversified borrowers that have better access to capital markets. SNCs are loans or loan commitments of at least \$20 million that are shared by three or more federally supervised institutions. The percentage of SNCs is approximately 80% of the upstream portfolio, 79% of the midstream portfolio, and 51% of 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, we provide ancillary banking services to these borrowers, further evidencing this direct relationship.

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

We expect some further downgrades in the energy portfolio as we begin to see third and fourth quarter results from the oilfield services companies, although we currently believe we have appropriately reserved for these downgrades. The deterioration of energy credits is transpiring consistently with our outlook and expectations from the fourth quarter of 2014; although, future energy price volatility may result in further credit deterioration. When establishing the level of the ACL, we consider multiple factors, including reduced drilling activity and additional capital raises. Since September 30, 2014, when energy prices began to decline significantly, Amegy Bank has increased its ACL by \$68 million. During the third quarter of 2015, we increased the ACL on the energy portfolio in part due to the decline in energy prices during the third quarter. This contributed to an increased provision for loan losses during the third quarter.

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**Commercial Real Estate Loans**

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

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

<i>(Amounts in millions)</i>		Collateral Location									% of total CRE
Loan type	As of date	Arizona	California	Colorado	Nevada	Texas	Utah/ Idaho	Wash- ington	Other <sup>1</sup>	Total	
<b>Commercial term</b>											
Balance outstanding	9/30/2015	\$ 1,101	\$ 2,776	\$ 361	\$ 548	\$ 1,335	\$ 1,137	\$ 253	\$ 578	\$ 8,089	78.5%
% of loan type		13.6%	34.3%	4.5%	6.8%	16.5%	14.1%	3.1%	7.1%	100.0%	
Delinquency rates <sup>2</sup> :											
30-89 days	9/30/2015	0.4%	0.1%	0.5%	0.3%	0.2%	—%	0.2%	0.4%	0.2%	
	12/31/2014	—%	0.1%	—%	0.4%	—%	0.6%	0.3%	0.2%	0.2%	
≥ 90 days	9/30/2015	—%	0.5%	2.1%	0.1%	0.1%	0.3%	0.9%	1.0%	0.4%	
	12/31/2014	0.1%	0.6%	—%	0.6%	0.1%	0.3%	0.3%	1.0%	0.4%	
Accruing loans past due 90 days or more											
	9/30/2015	\$ —	\$ 13	\$ —	\$ 1	\$ —	\$ 3	\$ 2	\$ 2	\$ 21	
	12/31/2014	—	12	—	3	—	3	1	1	20	
Nonaccrual loans											
	9/30/2015	\$ 5	\$ 5	\$ 8	\$ 2	\$ 5	\$ 5	\$ —	\$ 9	\$ 39	
	12/31/2014	2	8	1	1	2	1	—	10	25	
<b>Residential construction and land development</b>											
Balance outstanding	9/30/2015	\$ 60	\$ 353	\$ 72	\$ 6	\$ 256	\$ 66	\$ 13	\$ 8	\$ 834	8.1%
% of loan type		7.2%	42.3%	8.6%	0.7%	30.7%	7.9%	1.6%	1.0%	100.0%	
Delinquency rates <sup>2</sup> :											
30-89 days	9/30/2015	1.7%	0.5%	0.7%	—%	1.8%	—%	—%	—%	1.0%	
	12/31/2014	—%	—%	—%	—%	—%	—%	—%	—%	—%	
≥ 90 days	9/30/2015	—%	—%	—%	—%	—%	—%	—%	—%	—%	
	12/31/2014	—%	—%	—%	—%	2.6%	—%	—%	—%	0.8%	
Accruing loans past due 90 days or more											
	9/30/2015	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
	12/31/2014	—	—	—	—	—	—	—	—	—	
Nonaccrual loans											
	9/30/2015	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
	12/31/2014	—	—	—	—	7	—	—	—	7	
<b>Commercial construction and land development</b>											
Balance outstanding	9/30/2015	\$ 88	\$ 221	\$ 125	\$ 62	\$ 492	\$ 304	\$ 23	\$ 65	\$ 1,380	13.4%
% of loan type		6.4%	16.0%	9.1%	4.5%	35.7%	22.0%	1.6%	4.7%	100.0%	
Delinquency rates <sup>2</sup> :											
30-89 days	9/30/2015	0.1%	0.5%	—%	1.2%	0.3%	0.3%	—%	—%	0.3%	
	12/31/2014	—%	0.5%	0.1%	—%	0.2%	0.1%	—%	—%	0.2%	
≥ 90 days	9/30/2015	—%	1.0%	—%	—%	0.7%	—%	—%	—%	0.4%	
	12/31/2014	—%	0.9%	—%	—%	0.9%	—%	—%	—%	0.5%	
Accruing loans past due 90 days or more											
	9/30/2015	\$ —	\$ 2	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2	
	12/31/2014	—	—	—	—	—	—	—	—	—	
Nonaccrual loans											
	9/30/2015	\$ —	\$ —	\$ —	\$ 1	\$ 4	\$ 10	\$ —	\$ —	\$ 15	
	12/31/2014	—	2	—	—	4	11	—	—	17	
Total construction and land development											
	9/30/2015	\$ 148	\$ 574	\$ 197	\$ 68	\$ 748	\$ 370	\$ 36	\$ 73	\$ 2,214	
Total commercial real estate											
	9/30/2015	\$ 1,249	\$ 3,350	\$ 558	\$ 616	\$ 2,083	\$ 1,507	\$ 289	\$ 651	\$ 10,303	100.0%

<sup>1</sup> No other geography exceeds \$79 million for all three loan types.

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

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Approximately 22% of the CRE term loans consist of mini-perm loans as of September 30, 2015. For such loans, construction has been completed and the project has stabilized to a level that supports the granting of a mini-perm loan in accordance with our underwriting standards. Mini-perm loans generally have initial maturities of three to seven years. The remaining 78% 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 \$184 million, or 13%, of the commercial construction and land development portfolio at September 30, 2015 consists of acquisition and development loans. Most of these acquisition and development loans are secured by specific retail, apartment, office, or other projects. Underwriting on commercial properties is primarily based on the economic viability of the project with heavy consideration given to the creditworthiness and experience of the sponsor. We generally require that the owner's equity be injected prior to bank advances. Remargining requirements (required equity infusions upon a decline in value of the collateral) are often included in the loan agreement along with guarantees of the sponsor. Recognizing that debt is paid via cash flow, the projected cash flows of the project are critical in the underwriting because these determine the ultimate value of the property and its ability to service debt. Therefore, in most projects (with the exception of multifamily projects) we look for substantial pre-leasing in our underwriting and we generally require a minimum projected stabilized debt service coverage ratio of 1.20 or higher, depending on the project asset class.

Within the residential construction and development sector, many of the requirements previously mentioned, such as creditworthiness and experience of the developer, up-front injection of the developer's equity, principal curtailment requirements, and the viability of the project are also important in underwriting a residential development loan. Significant consideration is given to the likely market acceptance of the product, location, strength of the developer, and the ability of the developer to stay within budget. Progress inspections by qualified independent inspectors are routinely performed before disbursements are made.

Real estate appraisals are ordered and validated independent of the loan officer and the borrower, generally by each bank's internal appraisal review function, which is staffed by licensed appraisers. In some cases, reports from automated valuation services are used. Appraisals are ordered from outside appraisers at the inception, renewal or, for CRE loans, upon the occurrence of any event causing a downgrade to an adverse grade (i.e., "criticized" or "classified"). We increase the frequency of obtaining updated appraisals for adversely graded credits when declining market conditions exist.

Advance rates (i.e., loan commitments) will vary based on the viability of the project and the creditworthiness of the sponsor, but our guidelines generally limit advances to 50% for raw land, 65% for land development, 65% for finished commercial lots, 75% for finished residential lots, 80% for pre-sold homes, 75% for models and homes not under contract, and 75% for commercial properties. Exceptions may be granted on a case-by-case basis.

Loan agreements require regular financial information on the project and the sponsor in addition to lease schedules, rent rolls and, on construction projects, independent progress inspection reports. The receipt of this financial information is monitored and calculations are made to determine adherence to the covenants set forth in the loan agreement. Additionally, loan-by-loan reviews of pass grade loans for all commercial and residential construction and land development loans are performed semiannually at all subsidiary banks except TCBW, which performs such reviews annually.

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

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

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

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

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

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

### ***Consumer Loans***

We have mainly been an originator of first and second mortgages, generally considered to be of prime quality. Historically, our practice has been to sell "conforming" fixed-rate loans to third parties, including Fannie Mae and Freddie Mac, for which we make representations and warranties that the loans meet certain underwriting and collateral documentation standards. It has also been our practice historically to hold variable rate loans in our 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 we do not have any material risk as a result of either our foreclosure practices or loan put-backs and we have not established any reserves related to these items.

We are engaged in home equity credit line ("HECL") lending. At September 30, 2015, our 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 September 30, 2015, loans representing approximately 2% 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,

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underwriting standards for the HECL portfolio generally include a maximum 80% CLTV with high credit scores at origination.

Approximately 95% of our HECL portfolio is still in the draw period, and approximately 32% is scheduled to begin amortizing within the next five years. We regularly analyze 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. For the first nine months of 2015 and 2014, the annualized credit losses for the HECL portfolio were -3 bps and 6 bps, respectively. See Note 6 of the Notes to Consolidated Financial Statements for additional information on the credit quality of this portfolio.

***Nonperforming Assets***

Nonperforming assets as a percentage of loans and leases and OREO increased slightly to 0.92% at September 30, 2015, compared to 0.81% at December 31, 2014.

Total nonaccrual loans at September 30, 2015 increased by \$52.6 million from December 31, 2014. The increase is primarily due to increases in energy-related loans at Amegy Bank, the vast majority of which are current with payments, while other commercial and industrial loans, and commercial real estate term loans also experienced modest increases. Aside from Amegy Bank, the largest total increases in nonaccrual loans occurred at Zions Bank, NBAZ and Vectra.

The balance of nonaccrual loans can decrease due to paydowns, charge-offs, and the return of loans to accrual status under certain conditions. If a nonaccrual loan is refinanced or restructured, the new note is immediately placed on nonaccrual. If a restructured loan performs under the new terms for at least a period of six months, the loan can be considered for return to accrual status. See “Restructured Loans” following for more information. Company policy does not allow for the conversion of nonaccrual construction and land development loans to commercial real estate term loans. See Note 6 of the Notes to Consolidated Financial Statements for more information.

The following schedule sets forth our nonperforming assets:

**NONPERFORMING ASSETS**

<i>(Amounts in millions)</i>	<b>September 30, 2015</b>	<b>December 31, 2014</b>
Nonaccrual loans <sup>1</sup>	\$ 359	\$ 307
Other real estate owned	13	19
Total nonperforming assets	<u>\$ 372</u>	<u>\$ 326</u>
Ratio of nonperforming assets to net loans and leases <sup>1</sup> and other real estate owned	0.92%	0.81%
Accruing loans past due 90 days or more	\$ 35	\$ 29
Ratio of accruing loans past due 90 days or more to loans and leases <sup>1</sup>	0.09%	0.07%
Nonaccrual loans and accruing loans past due 90 days or more	\$ 394	\$ 336
Ratio of nonaccrual loans and accruing loans past due 90 days or more to loans and leases <sup>1</sup>	0.98%	0.84%
Accruing loans past due 30-89 days	\$ 118	\$ 86
Nonaccrual loans current as to principal and interest payments	53.9%	50.4%

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

## ZIONS BANCORPORATION AND SUBSIDIARIES

**Restructured Loans**

TDRs are loans that have been modified to accommodate a borrower who is experiencing financial difficulties, and for whom we have granted a concession that we would not otherwise consider. TDRs declined 17% during the first nine months of 2015, mainly due to payments and payoffs. Commercial loans may be modified to provide the borrower more time to complete the project, to achieve a higher lease-up percentage, to sell the property, or for other reasons. Consumer loan TDRs represent loan modifications in which a concession has been granted to the borrower who is unable to refinance the loan with another lender, or who is experiencing economic hardship. Such consumer loan TDRs may include first-lien residential mortgage loans and home equity loans.

For certain TDRs, we split the loan into two new notes – an “A” note and a “B” note. The A note is structured to comply with our current lending standards at current market rates, and is tailored to suit the customer’s ability to make timely principal and interest payments. The B note includes the granting of the concession to the borrower and varies by situation. We may defer principal and interest payments on the B note until the A note has been paid in full. At the time of restructuring, the A note is identified and classified as a TDR. The B note is charged off, but the obligation is not forgiven to the borrower, and any payments collected on the B note are accounted for as recoveries. The outstanding carrying value of loans restructured using the A/B note strategy was approximately \$79 million at September 30, 2015 and \$112 million at December 31, 2014.

If the restructured loan performs for at least six months according to the modified terms, and an analysis of the customer’s financial condition indicates that we are 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 a loan should be returned to accrual status.

**ACCRUING AND NONACCRUING TROUBLED DEBT RESTRUCTURED LOANS**

<i>(In millions)</i>	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Restructured loans – accruing	\$ 178	\$ 245
Restructured loans – nonaccruing	<u>108</u>	<u>98</u>
Total	<u>\$ 286</u>	<u>\$ 343</u>

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

**TROUBLED DEBT RESTRUCTURED LOANS ROLLFORWARD**

<i>(In millions)</i>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Balance at beginning of period	\$ 298	\$ 423	\$ 343	\$ 481
New identified TDRs and principal increases	31	17	83	71
Payments and payoffs	(27)	(53)	(115)	(125)
Charge-offs	(6)	(2)	(11)	(4)
No longer reported as TDRs	(10)	(7)	(12)	(32)
Sales and other	—	(3)	(2)	(16)
Balance at end of period	<u>\$ 286</u>	<u>\$ 375</u>	<u>\$ 286</u>	<u>\$ 375</u>

## ZIONS BANCORPORATION AND SUBSIDIARIES

**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, our loan and lease portfolio is broken into segments based on loan type.

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

**SUMMARY OF LOAN LOSS EXPERIENCE**

<i>(Amounts in millions)</i>	<b>Nine Months Ended September 30, 2015</b>	<b>Twelve Months Ended December 31, 2014</b>	<b>Nine Months Ended September 30, 2014</b>
Loans and leases outstanding (net of unearned income)	\$ 40,113	\$ 40,064	\$ 39,740
Average loans and leases outstanding (net of unearned income)	\$ 40,111	\$ 39,523	\$ 39,414
Allowance for loan losses:			
Balance at beginning of period	\$ 605	\$ 746	\$ 746
Provision charged (credited) to earnings	17	(98)	(110)
Adjustment for FDIC-supported/PCI loans	—	(1)	(1)
Charge-offs:			
Commercial	(77)	(77)	(46)
Commercial real estate	(6)	(15)	(14)
Consumer	(10)	(14)	(10)
Total	(93)	(106)	(70)
Recoveries:			
Commercial	39	41	28
Commercial real estate	21	12	9
Consumer	8	11	8
Total	68	64	45
Net loan and lease charge-offs	(25)	(42)	(25)
Balance at end of period	\$ 597	\$ 605	\$ 610
Ratio of annualized net charge-offs to average loans and leases	0.08%	0.11%	0.08%
Ratio of allowance for loan losses to net loans and leases, at period end	1.49%	1.51%	1.53%
Ratio of allowance for loan losses to nonperforming loans, at period end	166.01%	197.18%	198.64%
Ratio of allowance for loan losses to nonaccrual loans and accruing loans past due 90 days or more, at period end	151.33%	180.03%	180.56%

The total ALLL decreased slightly during the first nine months of 2015 by \$8.2 million. We increased the ALLL on our energy portfolio in part due to the decline in energy prices during the third quarter. This increase was partially offset by a reduction in the ALLL elsewhere, which was due to favorable changes in credit quality outside of the energy industry.

The RULC represents a reserve for potential losses associated with off-balance sheet commitments and standby letters of credit. The reserve is separately shown in the balance sheet and any related increases or decreases in the reserve are shown separately in the statement of income. At September 30, 2015, the reserve remained stable compared to December 31, 2014, and increased by \$2.0 million from September 30, 2014.

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

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

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

### ***Interest Rate Risk***

Interest rate risk is one of the most significant risks to which we are regularly exposed. In general, our goal in managing interest rate risk is to have net interest income increase in a rising interest rate environment. We refer to this goal as being “asset-sensitive.” This approach is based on our belief that in a rising interest rate environment, the market cost of equity, or implied rate at which future earnings are discounted, would also tend to rise.

Due to the low level of rates and the natural lower bound of zero for market indices, there is limited sensitivity to falling rates at the current time, and we have tended to operate near interest rate risk “triggers” and appetites to be appropriately positioned in light of prevailing market conditions in order to maximize shareholder value. However, if interest rates remain at their current historically low levels, given our asset sensitivity, we would expect the net interest margin to be under continuing modest pressure assuming a balance sheet that is static in size. In order to mitigate this pressure and to increase holdings in HQLA securities, in 2014, we began deploying cash into short-to-medium duration agency pass-through securities. In the third quarter of 2015, we purchased HQLA securities of \$1.6 billion at amortized cost, increasing HQLA securities by \$1.4 billion after paydowns and payoffs during the quarter, and we are continuing these purchases. Additionally, we have increased the use of interest rate swaps designated as cash flow hedges to synthetically convert floating-rate assets to fixed-rate. Over time these actions are expected to somewhat reduce our asset sensitivity compared to previous periods, while improving current earnings.

### ***Interest Rate Risk Measurement***

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

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

EVE is calculated as the fair value of all assets minus the fair value of liabilities. We measure changes in the dollar amount of EVE for parallel shifts in interest rates. Due to embedded optionality and asymmetric rate risk, changes in EVE can be useful in quantifying risks not apparent for small rate changes. Examples of such risks may include out-of-the-money interest rate caps (or limits) on loans, which have little effect under small rate movements but may become important if large rate changes were to occur, or substantial prepayment deceleration for low rate mortgages in a higher rate environment.



## ZIONS BANCORPORATION AND SUBSIDIARIES

The following schedule presents the formal EVE limits adopted by the Company. Exceptions to the EVE limits are subject to notification and approval by the ROC. In the normal course of business, the Company evaluated its limits and made changes to reflect its current balance sheet management objectives. These changes are reflected in the following schedule.

**ECONOMIC VALUE OF EQUITY DECLINE LIMITS**

<b>Parallel change in interest rates</b>	<b>Trigger decline in EVE</b>	<b>Risk capacity decline in EVE</b>
+/- 200 bps	8%	10%
+/- 400 bps	21%	25%

*New Interest Rate Risk Model and Comparisons*

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

Regardless of the model used, estimating the impact on net interest income and EVE requires that we assess a number of variables and make various assumptions in managing our exposure to changes in interest rates. The assessments address deposit withdrawals and deposit product migration (e.g., customers moving money from checking accounts to certificates of deposit), competitive pricing (e.g., existing loans and deposits are assumed to roll into new loans and deposits at similar spreads relative to benchmark interest rates), loan and security prepayments, and the effects of other similar embedded options. As a result of uncertainty about the maturity and repricing characteristics of both deposits and loans, we estimate ranges of possible net interest income and EVE results under a variety of assumptions and scenarios. The modeled results are highly sensitive to the assumptions used for deposits that do not have specific maturities, such as checking, savings and money market accounts, and also to prepayment assumptions used for loans with prepayment options. We use historical regression analysis as a guide to setting such assumptions; however, due to the current low interest rate environment, which has little historical precedent, estimated deposit durations may not reflect actual future results. Additionally, competition for funding in the marketplace has and may again result in changes of deposit pricing on interest-bearing accounts that is greater or less than changes in benchmark interest rates such as LIBOR or the federal funds rate.

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

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

**ZIONS BANCORPORATION AND SUBSIDIARIES**

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

Product	September 30, 2015			
	Fast		Slow	
	Effective duration (unchanged)	Effective duration (+200 bps)	Effective duration (unchanged)	Effective duration (+200 bps)
Demand deposits	2.0%	1.3%	2.5%	2.0%
Money market	1.5%	1.2%	1.9%	1.6%
Savings and interest on checking	2.7%	1.9%	3.2%	2.6%

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

**INCOME SIMULATION – CHANGE IN NET INTEREST INCOME**

Repricing scenario	September 30, 2015				
	Parallel shift in rates (in basis points) <sup>1</sup>				
	-100	0	+100	+200	+300
Fast	(2.9)%	—%	6.8%	12.3%	16.5%
Slow	(3.1)%	—%	9.6%	18.7%	27.2%

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

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

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

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

The decrease in interest rate sensitivity was driven by purchases of securities, addition of swap contracts in which we receive a fixed rate, and the previously mentioned changes in modeled demand deposit behavior.

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

**CHANGES IN ECONOMIC VALUE OF EQUITY**

Repricing scenario	September 30, 2015				
	-100 bps	0 bps	+100 bps	+200 bps	+300 bps
Fast	2.7%	—%	1.3%	0.7%	(1.4)%
Slow	1.6%	—%	4.4%	7.3%	8.8 %

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

**Market Risk – Fixed Income**

We engage in the underwriting and trading of municipal securities. This trading activity exposes us to a risk of loss arising from adverse changes in the prices of these fixed income securities.

At September 30, 2015, we had a relatively small amount, \$74 million, of trading assets and \$30 million of securities sold, not yet purchased, compared with \$71 million and \$24 million, at December 31, 2014.

We are exposed to market risk through changes in fair value. We are 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 accumulated other comprehensive income (“AOCI”) for each financial reporting period. During the third quarter of 2015, the after-tax change in AOCI attributable to AFS and HTM securities was an increase of \$11 million compared to a \$26 million increase in the same prior year period.

**Market Risk – Equity Investments**

Through our equity investment activities, we own equity securities that are publicly traded. In addition, we own equity securities in companies and governmental entities, e.g., Federal Reserve Bank and FHLBs, that are not publicly traded. The accounting for equity investments may use the cost, fair value, equity, or full consolidation methods of accounting, depending on our ownership position and degree of involvement in influencing the investees’ affairs. Regardless of the accounting method, the value of our investment is subject to fluctuation. Because the fair value of these securities may fall below our investment costs, we are 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 consisting of members of management.

We hold investments in pre-public companies through various predominantly SBIC venture capital funds. Our equity exposure to these investments was approximately \$112 million at September 30, 2015 and \$86 million at December 31, 2014.

Additionally, Amegy has an alternative investments portfolio. These investments are primarily directed towards equity buyout and mezzanine funds with a key strategy of deriving ancillary commercial banking business from the portfolio companies. Early stage venture capital funds are generally not a part of the strategy because the underlying companies are typically not creditworthy. The carrying value of Amegy’s equity investments was \$25 million at September 30, 2015 and \$38 million at December 31, 2014.

These PEIs are subject to the provisions of the Dodd-Frank Act. The Volcker Rule of the Dodd-Frank Act, as published in December 2013 and amended in January 2014, prohibits banks and bank holding companies from holding PEIs beyond July 21, 2016, as currently extended, except for SBIC funds. The FRB has announced its intention to act in 2015 to grant an additional one-year extension to July 21, 2017. As of September 30, 2015, such prohibited PEIs amounted to \$24 million, with an additional \$8 million of unfunded commitments (see Notes 5 and 11 of the Notes to Consolidated Financial Statements for more information). We currently do not believe that this divestiture requirement will ultimately have a material impact on our financial statements.

Our earnings from these investments, and the potential volatility of these earnings, are expected to decline over the next several years and will ultimately cease.

## **Liquidity Risk Management**

Liquidity risk is the possibility that our cash flows may not be adequate to fund our ongoing operations and meet our 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 our liquidity to provide adequate funds to meet our anticipated financial and contractual obligations, including withdrawals by depositors, debt and capital service requirements, and lease obligations, as well as to fund customers' needs for credit. The management of liquidity and funding is performed centrally for the Parent and jointly by the Parent and bank management for its subsidiary banks.

Consolidated cash, interest-bearing deposits held as investments, and security resell agreements at the Parent and its subsidiaries decreased to \$8.3 billion at September 30, 2015 from \$9.7 billion at June 30, 2015, and \$9.2 billion at December 31, 2014. The \$0.9 billion decrease during the first nine months of 2015 resulted primarily from (1) an increase in investment securities, (2) repayment of long-term debt, (3) net loan originations and (4) dividends on common and preferred stock. These decreases were partially offset by an increase in deposits and net cash provided by operating activities.

During the first nine months of 2015, our AFS investment securities increased by \$2.2 billion. This increase was primarily due to an increase in the purchases of short-to-medium duration agency guaranteed mortgage-backed securities, partially offset by the sale of the remaining portfolio of CDOs. We have been adding to our investment portfolio during the past several quarters as a result of the need for a permanent HQLA position in light of the new LCR rules and more broadly, to manage balance sheet liquidity more effectively. We expect to continue to deploy cash and short-term investments into HQLA in the next several quarters.

During the first nine months of 2015, we made cash payments totaling \$164 million for our long-term debt which matured or were redeemed and did not incur any new long-term debt during the same time period. See Note 8 for additional detail about debt redemptions and maturities during the first nine months of 2015.

## ***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 LCR minimum liquidity measure established under the Basel III liquidity framework. Under this rule, we are subject to a modified LCR standard, which requires a financial institution to hold an adequate amount of unencumbered HQLA that can be converted into cash easily and immediately in private markets to meet our liquidity needs for a short-term liquidity stress scenario. This rule becomes applicable to us on January 1, 2016. We have calculated that if the rule were applicable to us now, we would be in compliance with the requirement to maintain a modified LCR of at least 100%.

We are required to and are conducting monthly liquidity stress tests as of January 2015. These tests incorporate scenarios designed by us subject to review by the FRB.

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 on this Basel III publication, we believe we would meet the minimum NSFR if such requirement were currently effective. However, the FRB has not yet proposed regulations to implement these Basel Committee standards. We continue to monitor these developments.

***Parent Company Liquidity***

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

Cash, interest-bearing deposits held as investments, and security resell agreements at the Parent were \$1.1 billion at both September 30, 2015 and June 30, 2015, compared to \$1.0 billion at December 31, 2014. This \$0.1 billion increase resulted primarily from (1) dividends received from subsidiary banks on common and preferred stock, (2) an increase in security resell agreements, and (3) a decrease in investment securities. These increases were partially offset by debt and interest payments as well as dividends on our common and preferred stock.

At September 30, 2015, the Parent's long-term debt maturities during the remainder of 2015 consist of \$122 million carrying value of subordinated/convertible subordinated notes due on November 16, 2015. The Parent's long-term debt maturities during 2016 consist of \$89 million senior notes due on June 20, 2016.

See "Capital Management" for discussion regarding the tender offer of \$180 million for certain of the Company's preferred stock.

During the first nine months of 2015, the Parent received dividends on common stock and return of common equity totaling \$125 million and dividends on preferred stock totaling \$31 million from its subsidiary banks. During the first nine months of 2014, the Parent received \$145 million from its subsidiaries for dividends on common stock and return of common equity and \$36 million from dividends on preferred stock. The dividends that our subsidiary banks can pay to the Parent are restricted by current and historical earning levels, retained earnings, and risk-based and other regulatory capital requirements and limitations. During the first nine months of 2015, all of our subsidiary banks recorded a profit. We expect that this profitability will be sustained, thus permitting continued payments of dividends by the subsidiaries to the Parent. As discussed in Note 1 of the Notes to Consolidated Financial Statements, we have announced certain efficiency and restructuring initiatives that included, among other things, the mergers of our seven subsidiary banks into Zions Bank, whose name will be changed to ZB, N.A. The Company has received approvals from the OCC and the FDIC and expects to complete the mergers following the close of business on December 31, 2015. After completion of these mergers, the single charter bank dividend capacity to the Parent may change.

General financial market and economic conditions impact our access to, and cost of, external financing. Access to funding markets for the Parent and subsidiary banks is also directly affected by the credit ratings received from various rating agencies. The ratings not only influence the costs associated with the borrowings, but can also influence the sources of the borrowings. The debt ratings and outlooks issued by the various rating agencies for the Company did not change during the first nine months of 2015, except Moody's upgraded the Company's subordinated debt to Ba1 from Ba2 and revised its outlook to positive from stable. Standard & Poor's, Fitch, Dominion Bond Rating Service, and Kroll all rate the Company's senior debt at an investment-grade level, while Moody's rates the Company's senior debt as Ba1 (one notch below investment-grade). In addition, all of the previously mentioned rating agencies, except Kroll, rate the Company's subordinated debt as noninvestment-grade.

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ZIONS BANCORPORATION AND SUBSIDIARIES

The following schedule presents the Parent's balance sheets as of September 30, 2015, December 31, 2014, and September 30, 2014.

**PARENT ONLY CONDENSED BALANCE SHEETS**

<i>(In thousands)</i>	<u>September 30, 2015</u>	<u>December 31, 2014</u>	<u>September 30, 2014</u>
<b>ASSETS</b>			
Cash and due from banks	\$ 2,132	\$ 2,023	\$ 2,008
Interest-bearing deposits	478,136	1,007,916	872,543
Security resell agreements	650,000	—	—
Investment securities:			
Held-to-maturity, at adjusted cost (approximate fair value of \$0, \$34,691 and \$36,277)	—	17,292	17,307
Available-for-sale, at fair value	45,889	130,964	208,009
Other noninterest-bearing investments	27,512	29,091	29,164
Investments in subsidiaries:			
Commercial banks and bank holding company	7,194,426	6,995,000	6,964,420
Other operating companies	27,800	22,948	23,885
Nonoperating – ZMFU II, Inc. <sup>1</sup>	44,948	44,792	44,808
Receivables from subsidiaries:			
Other operating companies	6,060	15,060	10,060
Other assets	78,044	106,224	190,166
	<u>\$ 8,554,947</u>	<u>\$ 8,371,310</u>	<u>\$ 8,362,370</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Other liabilities	\$ 122,485	\$ 85,275	\$ 101,944
Subordinated debt to affiliated trusts	15,464	15,464	15,464
Long-term debt:			
Due to affiliates	50	20	76
Due to others	778,853	901,021	922,727
Total liabilities	<u>916,852</u>	<u>1,001,780</u>	<u>1,040,211</u>
Shareholders' equity:			
Preferred stock	1,004,159	1,004,011	1,004,006
Common stock	4,756,288	4,723,855	4,717,295
Retained earnings	1,894,623	1,769,705	1,711,785
Accumulated other comprehensive loss	(16,975)	(128,041)	(110,927)
Total shareholders' equity	<u>7,638,095</u>	<u>7,369,530</u>	<u>7,322,159</u>
	<u>\$ 8,554,947</u>	<u>\$ 8,371,310</u>	<u>\$ 8,362,370</u>

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

The Parent's cash payments for interest, reflected in operating expenses, decreased to \$33 million during the first nine months of 2015 from \$80 million during the first nine months of 2014 due to continued maturity and repayment of debt. The Parent's cash payments for interest are expected to continue to decrease over the next several quarters as a result of scheduled debt maturities and repayments. Additionally, the Parent paid approximately \$80 million and \$71 million of total dividends on preferred stock and common stock for the same periods.

At September 30, 2015, maturities of the Parent's long-term senior and subordinated debt ranged from November 2015 to September 2028.

***Subsidiary Bank Liquidity***

The subsidiary banks' primary source of funding is their core deposits, consisting of demand, savings and money market deposits, and time deposits under \$250,000. On a consolidated basis, the Company's loan to total deposit ratio decreased to 82.0% at September 30, 2015, compared to 83.7% at December 31, 2014 and 85.9% at September 30, 2014.

ZIONS BANCORPORATION AND SUBSIDIARIES

Total deposits increased by \$1.1 billion to \$48.9 billion at September 30, 2015, compared to \$47.8 billion at December 31, 2014, primarily due to a \$1.0 billion increase in noninterest-bearing demand deposits. This increase was partially offset by a \$191 million decrease in time deposits.

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

At September 30, 2015, the amount available for additional FHLB and Federal Reserve borrowings was approximately \$16.2 billion. The amount available for additional FHLB and Federal Reserve borrowings is not expected to decrease as a result of the subsidiary bank mergers. Loans with a carrying value of approximately \$22.3 billion at September 30, 2015, \$22.4 billion at June 30, 2015, and \$22.5 billion at December 31, 2014, have been pledged at the Federal Reserve and various FHLBs as collateral for current and potential borrowings. During the second quarter of 2015, we repaid our outstanding \$22 million of long-term borrowings with the FHLB. We had no short-term FHLB or Federal Reserve borrowings outstanding at September 30, 2015, which was unchanged from December 31, 2014. At September 30, 2015, the subsidiary banks' total investment in FHLB and Federal Reserve stock was \$68 million and \$123 million, respectively, compared to \$104 million and \$121 million at December 31, 2014.

Our investment activities can provide or use cash, depending on the asset liability management posture taken. During the first nine months of 2015, HTM and AFS investment securities' activities resulted in a net increase in investment securities and a net \$2.1 billion decrease in cash, compared with a net \$273 million increase in cash for the first nine months of 2014, reflecting our purchase of HQLAs.

Maturing balances in our subsidiary banks' loan portfolios also provide additional flexibility in managing cash flows. Lending and purchase activity for the first nine months of 2015 resulted in a net cash outflow of \$75 million compared to a net cash outflow of \$739 million for the first nine months of 2014.

A more comprehensive discussion of our liquidity management is contained in our 2014 Annual Report on Form 10-K.

### **Operational Risk Management**

Operational risk is the risk to current or anticipated earnings or capital arising from inadequate or failed internal processes or systems, human errors or misconduct, or adverse external events. In our ongoing efforts to identify and manage operational risk, we have an Enterprise Risk Management department whose responsibility is to help employees, management and the Board of Directors to assess, understand, measure, and monitor risk in accordance with our 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 our operational risk, we have 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 our systems or telecommunications, access customer data, and/or deny normal access to those systems to our legitimate customers; regulatory compliance reviews; and periodic reviews by the Company's Internal Audit and Credit Examination departments. Reconciliation procedures have been established to ensure that data processing systems consistently and accurately capture critical data. Further, we undertake significant efforts to

## ZIONS BANCORPORATION AND SUBSIDIARIES

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.

We are continually improving our oversight of operational risk, including enhancement of risk identification, risk and control self-assessments, and antifraud measures, which are reported on a regular basis to two management committees. The Operational Risk Committee reports to the Enterprise Risk Management Committee, which reports to the ROC.

The number and sophistication of attempts to disrupt or penetrate our 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. We have 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 (our related losses 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. We continue to review this area of our operations to help ensure that it manages this risk in an effective manner.

## CAPITAL MANAGEMENT

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

### *Capital Plan and Stress Tests*

As a bank holding company with assets greater than \$50 billion, we are required by the Dodd-Frank Act to participate in annual stress tests known as the Dodd-Frank Act Stress Test (“DFAST”) and Federal Reserve’s Comprehensive Capital Analysis and Review (“CCAR”). We timely submitted our 2015 capital plan and stress test results to the FRB on January 5, 2015. In our capital plan, we were required to forecast under a variety of economic scenarios for nine quarters ending the fourth quarter of 2016 our estimated regulatory capital ratios, including our tier 1 common ratio under Basel I rules, our estimated regulatory capital ratios, including our Common Equity Tier 1 (“CET1”) ratio, under Basel III rules, and our GAAP tangible common equity ratio. During the second quarter of 2015, we completed our mid-cycle capital stress test as required under DFAST. The results demonstrated that we maintained sufficient capital to withstand a severe economic downturn. Detailed disclosure of the mid-cycle stress test results can be found on the Company’s website. Under the implementing regulations for CCAR, a bank holding company may generally raise and redeem capital, pay dividends, and repurchase stock and take similar capital-related actions only under a capital plan as to which the FRB has not objected.

On March 11, 2015, we announced that the Federal Reserve notified us that it did not object to the capital actions outlined in our 2015 capital plan. The plan included (1) the increase of the quarterly common dividend to \$0.06 per share beginning in the second quarter of 2015; (2) the continued payment of preferred dividends at the current rates; and (3) up to \$300 million in total reduction of preferred equity. As previously discussed, on October 19, 2015, we announced that we will deploy \$180 million of cash through a tender offer to purchase certain outstanding preferred stock and depositary shares. We expect to redeem the remaining balance of the \$300 million redemption included in our capital plan during the first half of 2016; however, the method and specific timing have not yet been determined. The ultimate determination of future preferred stock reductions will depend on a number of factors, including market conditions and the receptivity of preferred investors to the terms of any preferred stock redemption offers, as well as the effect of other steps we may explore as we seek to manage our capital in light of the most recent round of stress tests, any of which could result in a reduction or delay of further preferred equity reductions. We expect to manage any further reduction of preferred equity such that total tier 1 capital does not decline materially during the period covered by our CCAR 2015 capital plan.



### ***Basel III***

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

Under prior Basel I capital standards, the effects of AOCI items included in capital were excluded for purposes of determining regulatory capital and capital ratios. As a “non-advanced approaches banking organization,” we made a one-time permanent election as of January 1, 2015 to continue to exclude these items, as allowed under the Basel III Capital Rules.

We met all capital adequacy requirements under the Basel III Capital Rules based upon a 2015 phase-in as of September 30, 2015, and believe that we would meet all capital adequacy requirements on a fully phased-in basis if such requirements were currently effective.

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

### ***Capital Management Actions***

Total shareholders’ equity increased by \$269 million to \$7.6 billion at September 30, 2015 from \$7.4 billion at December 31, 2014. The increase in total shareholders’ equity is primarily due to net income of \$207 million and to the sale of the Company’s remaining portfolio of CDO securities, which was the primary driver of the \$111 million increase in AOCI, partially offset by \$81 million of dividends recorded on preferred and common stock.

Our quarterly dividend on common stock remained at \$0.06 per share during the third quarter of 2015. The dividend rate was increased to \$0.06 per share during the second quarter of 2015 from \$0.04 per share paid since the second quarter of 2013. We paid \$32.8 million in dividends on common stock during the first nine months of 2015, compared to \$23.1 million during the first nine months of 2014. During its October 2015 meeting, the Board of Directors declared a quarterly dividend of \$0.06 per common share payable on November 25, 2015 to shareholders of record on November 18, 2015.

We recorded dividends on preferred stock of \$48.6 million and \$56.8 million for the first nine months of 2015 and 2014, respectively. Dividends on preferred stock recorded in the first nine months of 2015 and 2014 included accruals of \$1.7 million and \$8.7 million, respectively. Our 2015 capital plan, to which the Federal Reserve did not object, includes the reduction of up to \$300 million in preferred stock. See discussion under “Capital Plan and Stress Tests” following. On October 19, 2015, we announced the commencement of a \$180 million cash tender offer to purchase certain outstanding preferred stock and depository shares. The ultimate amount purchased will be determined by the success of the tender offer, which will expire on November 16, 2015. Depending upon the total amount and mix of series of preferred stock purchased from this offer, preferred stock dividends during 2016 may be reduced by approximately \$10 million.

### ***Capital Ratios***

Banking organizations are required by capital regulations to maintain adequate levels of capital as measured by several regulatory capital ratios.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The following schedule shows the Company's capital and performance ratios as of September 30, 2015, December 31, 2014, and September 30, 2014.

**CAPITAL RATIOS**

	September 30, 2015	December 31, 2014	September 30, 2014
Tangible common equity ratio	9.76%	9.48%	9.70%
Tangible equity ratio	11.51%	11.27%	11.54%
Average equity to average assets (three months ended)	13.11%	13.21%	12.87%
Basel III risk-based capital ratios <sup>1</sup> :			
Common equity tier 1 capital	12.16%		
Tier 1 leverage	11.63%		
Tier 1 risk-based	14.41%		
Total risk-based	16.46%		
Basel I risk-based capital ratios:			
Tier 1 common		11.92%	11.86%
Tier 1 leverage		11.82%	11.87%
Tier 1 risk-based		14.47%	14.43%
Total risk-based		16.27%	16.28%
Return on average common equity (three months ended)	5.02%	4.06%	5.05%
Tangible return on average tangible common equity (three months ended)	6.05%	4.95%	6.19%

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

At September 30, 2015, Basel III regulatory tier 1 risk-based capital and total risk-based capital was \$6.7 billion and \$7.6 billion, respectively. Basel I regulatory tier 1 risk-based capital and total risk-based capital at December 31, 2014 was \$6.6 billion and \$7.4 billion, respectively.

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

**GAAP to NON-GAAP RECONCILIATIONS****1. Basel I tier 1 common capital**

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

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

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

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ZIONS BANCORPORATION AND SUBSIDIARIES

periods of total shareholders' equity (GAAP) to tier 1 capital (regulatory at the subject dates) and to TIC capital (non-GAAP) using Basel I U.S. regulatory treatment, and the resulting TIC capital ratio.

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

<i>(Amounts in millions)</i>	December 31, 2014	September 30, 2014
Total shareholders' equity (GAAP)	\$ 7,370	\$ 7,322
Accumulated other comprehensive loss	128	111
Nonqualifying goodwill and intangibles	(1,040)	(1,043)
Other regulatory adjustments	(1)	(1)
Qualifying trust preferred securities	163	163
Tier 1 capital (regulatory)	6,620	6,552
Qualifying trust preferred securities	(163)	(163)
Preferred stock	(1,004)	(1,004)
Tier 1 common capital (non-GAAP)	\$ 5,453	\$ 5,385
Risk-weighted assets (regulatory)	\$ 45,738	\$ 45,409
Tier 1 common capital to risk-weighted assets (non-GAAP)	11.92%	11.86%

**2. Tangible return on average tangible common equity**

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

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

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

<i>(Amounts in thousands)</i>	Three Months Ended		
	September 30, 2015	December 31, 2014	September 30, 2014
Net earnings applicable to common shareholders (GAAP)	\$ 84,238	\$ 66,761	\$ 79,127
Adjustment, net of tax:			
Amortization of core deposit and other intangibles	1,461	1,676	1,690
Net earnings applicable to common shareholders, excluding the effects of the adjustment, net of tax (non-GAAP)	(a) \$ 85,699	\$ 68,437	\$ 80,817
Average common equity (GAAP)	\$ 6,655,513	\$ 6,521,187	\$ 6,221,344
Average goodwill	(1,014,129)	(1,014,129)	(1,014,129)
Average core deposit and other intangibles	(19,726)	(26,848)	(29,535)
Average tangible common equity (non-GAAP)	(b) \$ 5,621,658	\$ 5,480,210	\$ 5,177,680
Number of days in quarter	(c) 92	92	92
Number of days in year	(d) 365	365	365
Tangible return on average tangible common equity (non-GAAP)	(a/b*c*d) 6.05%	4.95%	6.19%

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

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

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**ZIONS BANCORPORATION AND SUBSIDIARIES**

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

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

<i>(Amounts in millions)</i>		<u>September 30, 2015</u>	<u>December 31, 2014</u>	<u>September 30, 2014</u>
Total shareholders' equity (GAAP)		\$ 7,638	\$ 7,370	\$ 7,322
Goodwill		(1,014)	(1,014)	(1,014)
Core deposit and other intangibles		(19)	(26)	(28)
Tangible equity (non-GAAP)	(a)	<u>6,605</u>	<u>6,330</u>	<u>6,280</u>
Preferred stock		(1,004)	(1,004)	(1,004)
Tangible common equity (non-GAAP)	(b)	<u>\$ 5,601</u>	<u>\$ 5,326</u>	<u>\$ 5,276</u>
Total assets (GAAP)		\$ 58,411	\$ 57,209	\$ 55,459
Goodwill		(1,014)	(1,014)	(1,014)
Core deposit and other intangibles		(19)	(26)	(28)
Tangible assets (non-GAAP)	(c)	<u>\$ 57,378</u>	<u>\$ 56,169</u>	<u>\$ 54,417</u>
Tangible equity ratio	(a/c)	11.51%	11.27%	11.54%
Tangible common equity ratio	(b/c)	9.76%	9.48%	9.70%

**4. Efficiency ratio**

This Form 10-Q presents an "efficiency ratio" whose calculation includes adjustments for certain line items and amounts in noninterest expense and noninterest income. The following schedule provides a reconciliation of noninterest expense (GAAP), taxable-equivalent net interest income (GAAP) and noninterest income (GAAP) to the efficiency ratio (non-GAAP).

**EFFICIENCY RATIO**

<i>(Amounts in thousands)</i>		<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
		<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Noninterest expense (GAAP)	(a)	\$ 396,149	\$ 438,536	\$1,197,710	\$ 1,242,626
Adjustments:					
Severance costs		3,464	4,919	7,424	6,897
Other real estate expense, net		(40)	875	(111)	2,216
Provision for unfunded lending commitments		1,428	(16,095)	313	(10,328)
Debt extinguishment cost		—	44,422	2,395	44,422
Amortization of core deposit and other intangibles		2,298	2,665	6,974	8,283
Restructuring costs		833	—	1,483	—
Total adjustments		<u>7,983</u>	<u>36,786</u>	<u>18,478</u>	<u>51,490</u>
Add-back of adjustments	(b)	<u>(7,983)</u>	<u>(36,786)</u>	<u>(18,478)</u>	<u>(51,490)</u>
Adjusted noninterest expense (non-GAAP)	(a+b)=(c)	<u>\$ 388,166</u>	<u>\$ 401,750</u>	<u>\$1,179,232</u>	<u>\$ 1,191,136</u>
Taxable-equivalent net interest income (GAAP)	(d)	\$ 429,782	\$ 420,850	\$1,279,378	\$ 1,261,357
Noninterest income (GAAP)	(e)	130,813	116,071	253,056	379,234
Adjustments:					
Fair value and nonhedge derivative income (loss)		(1,555)	44	(799)	(10,429)
Equity securities gains, net		3,630	440	11,822	3,865
Fixed income securities gains (losses), net		(53)	(13,901)	(138,728)	22,039
Total adjustments		<u>2,022</u>	<u>(13,417)</u>	<u>(127,705)</u>	<u>15,475</u>
Add-back of adjustments	(f)	<u>(2,022)</u>	<u>13,417</u>	<u>127,705</u>	<u>(15,475)</u>
Adjusted taxable-equivalent net interest income and noninterest income (non-GAAP)	(d+e+f)=(g)	<u>\$ 558,573</u>	<u>\$ 550,338</u>	<u>\$1,660,139</u>	<u>\$ 1,625,116</u>
Efficiency ratio	(c/g)	69.5%	73.0%	71.0%	73.3%

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

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

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

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

### **ITEM 4. CONTROLS AND PROCEDURES**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2015. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2015. There were no changes in the Company's internal control over financial reporting during the third quarter of 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

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

### **ITEM 1A. RISK FACTORS**

We believe there have been no material changes in the risk factors included in Zions Bancorporation's 2014 Annual Report on Form 10-K. However, the following is updated risk factor disclosure related to certain management actions:

*We are making significant changes to the Company that include, among other things, the combination of certain of our subsidiary companies into a single entity, other organizational restructurings, efficiency initiatives, and replacement or upgrades of certain core technological systems. The ultimate success and completion of these changes, and their effect on the Company, may vary significantly from initial planning, which could materially adversely affect the Company, including its control environment, operating efficiency, and results of operations.*

## ZIONS BANCORPORATION AND SUBSIDIARIES

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. In addition, we are implementing operational changes relating to our loan and deposit activities. These initiatives will be completed in phases to allow for appropriate testing and implementation so as to minimize time delays and cost overruns. In June of this year, the Company announced that our Board of Directors approved the consolidation of our seven subsidiary banks and our service company into a single bank. The Company also decided to make other organizational changes such as the realignment of management responsibilities and the rationalization of support functions, including accounting and risk, and back office operations. Also in June of this year, management announced certain efficiency initiatives to improve operating results and return on equity.

These changes continue to be developed and some are in their early stages. By their very nature, projections of duration, cost, expected savings, expected efficiencies, and related items are subject to change and significant variability.

We may encounter significant adverse developments in the completion and implementation of these changes. These may include significant time delays, cost overruns, loss of key people, technological problems, processing failures, and other adverse developments. Our ability to attract key employees with appropriate talent to implement these changes may also be challenged. Further, our ability to maintain an adequate control environment may be impacted. Any or all of these issues could result in disruptions to our systems, processes, controls, procedures, and employees, which may adversely impact our customers and ability to conduct business.

We have plans 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 ultimate effect 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 control environment, operating efficiency, and results of operations.

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

The following schedule summarizes the Company's share repurchases for the third quarter of 2015:

**SHARE REPURCHASES**

<u>Period</u>	<u>Total number of shares repurchased <sup>1</sup></u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of publicly announced plans or programs</u>	<u>Approximate dollar value of shares that may yet be purchased under the plan</u>
July	545	\$ 31.76	—	\$ —
August	22,176	30.83	—	—
September	1,012	28.24	—	—
Third quarter	<u>23,733</u>	30.74	<u>—</u>	

<sup>1</sup> Represents common shares acquired from employees in connection with our stock compensation plan. Shares were acquired from employees to pay for their payroll taxes and stock option exercise cost upon the vesting of restricted stock and restricted stock units, and the exercise of stock options, under provisions of an employee share-based compensation plan.

**ITEM 6. EXHIBITS**

## a) Exhibits

<b>Exhibit Number</b>	<b>Description</b>	
3.1	Restated Articles of Incorporation of Zions Bancorporation dated July 8, 2014, incorporated by reference to Exhibit 3.1 of Form 8-K/A filed on July 18, 2014.	*
3.2	Restated Bylaws of Zions Bancorporation dated February 27, 2015, incorporated by reference to Exhibit 3.2 of Form 10-Q for the quarter ended March 31, 2015.	*
10.1	Sixth Amendment to Trust Agreement between Fidelity Management Trust Company and Zions Bancorporation for the Deferred Compensation Plans, dated August 17, 2015 (filed herewith).	
10.2	Sixth Amendment to the Zions Bancorporation Payshelter 401(k) and Employee Stock Ownership Plan Trust Agreement between Zions Bancorporation and Fidelity Management Trust Company, dated August 17, 2015 (filed herewith).	
31.1	Certification by Chief Executive Officer required by Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (filed herewith).	
31.2	Certification by Chief Financial Officer required by Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (filed herewith).	
32	Certification by Chief Executive Officer and Chief Financial Officer required by Sections 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m) and 18 U.S.C. Section 1350 (furnished herewith).	
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014, (ii) the Consolidated Statements of Income for the three months ended September 30, 2015 and September 30, 2014 and the nine months ended September 30, 2015 and September 30, 2014, (iii) the Consolidated Statements of Comprehensive Income for the three months ended September 30, 2015 and September 30, 2014 and the nine months ended September 30, 2015 and September 30, 2014, (iv) the Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2015 and September 30, 2014, (v) the Consolidated Statements of Cash Flows for the three months ended September 30, 2015 and September 30, 2014 and the nine months ended September 30, 2015 and September 30, 2014, and (vi) the Notes to Consolidated Financial Statements (filed herewith).	

\* *Incorporated by reference*

**SIGNATURES**

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

ZIONS BANCORPORATION

/s/ Harris H. Simmons

Harris H. Simmons, Chairman and  
Chief Executive Officer

/s/ Paul E. Burdiss

Paul E. Burdiss, Executive Vice  
President and Chief Financial Officer

Date: November 6, 2015